Supreme Court, U.S.
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No. _____

In the Supreme Court of the United States

ADVANCED COMMUNICATION DESIGN, INC.,

Petitioner,

v.

PREMIER RETAIL NETWORKS, INC.,

Respondent.

ON PETITION FOR A WRIT OF CERTIORARI
TO THE UNITED STATES COURT OF APPEALS
FOR THE FEDERAL CIRCUIT

PETITION FOR A WRIT OF CERTIORARI

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120 pp

QUESTIONS PRESENTED

Respondent was served with the summons and complaint in this patent infringement lawsuit on August 21, 2001. It is undisputed Respondent's CFO faxed a copy of the summons and complaint to Respondent's counsel that same day. Respondent's counsel did not file or serve a responsive pleading until October 17, 2001 (37 days late). Respondent's counsel has provided absolutely no explanation, justification or excuse for failing to file a timely answer. The District Court found that the default was willful and the result of culpable conduct and denied Respondent's motion for relief from the entry of default. The District Court also granted Petitioner's motion for a partial default judgment on liability. On appeal, the Federal Circuit held that the District Court abused its discretion in failing to find good cause existed under Federal Rule of Civil Procedure 55(c) to set aside the entry of default. Despite the District Court's express finding the default was willful, the Federal Circuit reversed the entry of partial default judgment on the basis of various post default facts, including "the short delay in this case, the poor communication that caused it, and the action that Premier immediately took to cure its filing oversight." The questions presented are:

1. Whether a finding of willful default is alone sufficient to preclude a finding of "good cause" under Federal Rule of Civil Procedure 55(c) as determined by the Tenth, Ninth, Fifth and First Circuit Courts of Appeal, or whether the "good cause" standard requires the consideration and balancing of all equitable factors, including but not limited to, the length of the delay, the post default actions of the defaulting party, resulting prejudice to the parties, and/or the existence of a meritorious defense, as determined by the Sixth and Third Circuit Courts of Appeal.

2. Whether a counsel's completely unexplained failure to timely serve or file a responsive pleading constitutes a willful default regardless of the length of delay caused by the default or the actions of the client following discovery of the default.

RULE 29 STATEMENT

No disclosure is required under Supp. Ct. R. 29.6.

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Petitioner Advanced Communication Design, Inc. seeks a writ of certiorari to review the judgment of the United States Court of Appeals for the Federal Circuit.

OPINIONS BELOW

The opinion of the Federal Circuit is unreported. *Advanced Communication Design, Inc. v. Premier Retail Networks, Inc.*, 46 Fed.Appx. 964, 2002 WL 31108793 (Fed. Cir. Sept. 23, 2002) (A-2–A-39.) The decision of the District Court which the Federal Circuit reversed in part is published at *Advanced Communication Design, Inc. v. Premier Retail Networks, Inc.*, 186 F.Supp.2d 1009 (D.Minn. 2002) (A-43–A-67.)

JURISDICTION

The Federal Circuit issued its decision on September 23, 2002. Petitioner timely moved for rehearing and rehearing en banc, which the court denied on November 22, 2002. (A-1–A-2.) Petitioner invokes the jurisdiction of this Court under 28 U.S.C. § 1254(1).

STATUTES INVOLVED

Federal Rule of Civil Procedure 55(c) reads:

> **(c) Setting Aside Default.** For good cause shown the court may set aside an entry of default and, if a judgment by default has been entered, may likewise set it aside in accordance with Rule 60(b).

STATEMENT OF THE CASE

Petitioner Advanced Communication Design, Inc. ("Advanced") brought this action against Respondent Premier

Retail Network, Inc. ("Premier") for infringement of U.S. Patent No. 6,133,908. The District Court had jurisdiction over the matter pursuant to 28 U.S.C. §§ 1331 and 1338(a). The patent covers a multi-station video/audio distribution apparatus for sampling material such as videotapes and laser discs. The apparatus is sold primarily to retail and rental video stores, and allows customers to view samples of media prior to purchase. Advanced's complaint alleges patent infringement and seeks injunctive relief and damages.

Advanced personally served the summons and complaint upon Arthur Songey, Premier's Chief Financial Officer, at Premier's San Francisco offices on August 21, 2001. (A-68–A-69.) It is undisputed that Songey faxed a copy of the summons and complaint that same day to Premier's counsel Steven Clulow at the law firm of Wilson, Sonsini, Goodrich and Rosati. (A-70–A-71.) It is also undisputed that Premier's counsel did not serve or file a responsive pleading to the complaint until October 17, 2001 (37 days late). At no point has Premier or Wilson Sonsini provided any explanation, justification or excuse why attorney Clulow failed to answer the complaint in a timely answer. The record is devoid of any Affidavit or testimony from Mr. Clulow (or anyone else) explaining the cause or reason for Clulow's failure to answer the complaint in a timely fashion.

Premier has repeatedly referred to Mr. Clulow as its "corporate matters" attorney in an apparent effort to imply or suggest that Mr. Clulow may not have been familiar with the necessity to answer the complaint in a timely fashion. (A-70–A-71, A-72). Despite this repeated implication or suggestion, there is absolutely no evidence in the record Mr. Clulow failed to appreciate or understand the basic legal principal that a responsive pleading was required within 20 days of service as stated on the face of the summons. There is absolutely no evidence in the record, nor has there been any attempt by Premier, or anyone at Wilson Sonsini, to explain,

what Mr. Clulow did or failed to do with the summons and complaint.

The only evidence in the record which could arguably be construed as an attempted explanation for Wilson Sonsini's failure to timely answer the complaint is an Affidavit from Wilson Sonsini lawyer Paul Davis stating he was told sometime in May or June of 2001, *more than two months before the summons and complaint were even served*, that the dispute between Advanced and Premier was being handled "CEO to CEO." (A-73.) In addition to the fact that the alleged statement was made more than two months before service of the complaint, the statement is also irrelevant because there is absolutely no evidence in the record the statement contributed in any way to Wilson Sonsini's failure to file a timely responsive pleading. Specifically, Davis has not testified he was in any way involved in Wilson Sonsini's failure to file a timely answer. On the contrary, Davis testified he was not even made aware the complaint had been served until after the default. (A-77.) Moreover, there is no evidence in the record the alleged statement was ever passed on to Mr. Clulow, who, according to the record, was the only Wilson Sonsini lawyer with knowledge the complaint had been served prior to the default and who therefore was responsible for filing a timely responsive pleading. The record is utterly devoid of any attempt by Premier, Clulow or Wilson Sonsini to explain, justify or excuse why Mr. Clulow failed to timely respond to the summons and complaint.

Before seeking the entry of default, Advanced's counsel made a courtesy call to Wilson Sonsini attorney Paul Davis on September 25, 2001. Mr. Davis was advised of the default and asked about the status of Premier's responsive pleading. (A-80.) Davis was unable to inform Advanced's counsel whether a responsive pleading was forthcoming, or even whether Wilson Sonsini was representing Premier in the lawsuit. (*Id.*)

Despite being directly advised of Premier's default, Davis took absolutely no immediate action to remedy the default. In fact, Premier contends neither Davis, nor anyone at Wilson Sonsini, advised Premier it was in default until October 8, 2001 (thirteen days after the courtesy call) (A-85, A-87.) There has been no explanation, justification or excuse for this delay provided by Premier or Wilson Sonsini.

Premier also contends that when it allegedly first learned of the default from Wilson Sonsini on October 8, 2001, it instructed Wilson Sonsini to get a response on file as quickly as possible. (A-85.) Contrary to this uncontroverted specific request from Premier, Wilson Sonsini delayed yet another week before first contacting Advanced's counsel to inquire about remedying the default. (A-77–A-79.)

In summary, Wilson Sonsini took absolutely no action to respond to the complaint, communicate with opposing counsel, or remedy the default, for forty-four days after being provided with a copy of the summons and complaint by Premier on the day of service. Neither Wilson Sonsini nor Premier have provided any justification, explanation or excuse for Wilson Sonsini's complete failure to abide by the Rules of Civil Procedure, its failure to advise Premier of the necessity to file an answer, or its three week delay in taking any action after learning of the default from opposing counsel.

Based on this record, the District Court made a specific finding that the default was willful and the result of culpable conduct. The District Court relied on case law from the Ninth Circuit Court of Appeals, as well as several District Court decisions, in holding it was able to set aside the entry of default based solely on its finding of willful or culpable conduct and without having to consider any other equitable considerations, including, without limitation, the length of the delay, Premier's actions after learning of the default, prejudice to the parties, or the existence of a meritorious defense. Due to the absence of "good cause" warranting relief from the

entry of default, the District Court granted Advanced's motion for partial default judgment on liability. (A-43–A-67.)

On appeal, the Federal Circuit determined that the District Court abused its discretion in finding no good cause existed to set aside the entry of default. Despite the District Court's express finding of willful or culpable conduct, the Federal Circuit implicitly adopted the approach advocated by the Sixth and Third Circuit Court of Appeals by considering and weighing various equitable considerations. According the Federal Circuit, these equitable considerations, including "the short delay in this case, the poor communication that caused it, and the action that Premier immediately took to cure its filing oversight" warranted reversing the partial default judgment despite the completely unexplained, and therefore willful, default by Premier's counsel. (A-2–A-39.)

REASONS FOR GRANTING THE WRIT

I. REVIEW OF THE FEDERAL CIRCUIT'S DECISION IS NECESSARY TO RESOLVE A RECURRING CONFLICT AMONG THE CIRCUIT COURTS INVOLVING A FUNDAMENTAL AND IMPORTANT PUBLIC POLICY CONCERN REGARDING THE ROLE OF DEFAULT IN ENFORCING COMPLIANCE WITH RULES OF CIVIL PROCEDURE AND MAINTAINING AN ORDERLY AND EFFICIENT JUDICIAL SYSTEM.

The Federal Circuit's decision highlights a recurring and recognized conflict among the United States Circuit Courts of Appeal. It also involves a fundamental and important policy concern regarding the role of default in enforcing compliance with the rules of procedure and maintaining an orderly and efficient judicial system. The

issue is whether a finding of willful conduct alone precludes a finding of good cause to set aside entry of default under Rule 55(c), or whether a court is required to consider a variety of equitable considerations regardless of if the default was willful, including, without limitation, the length of delay, the effects or consequences of the default, and/or the actions of a party following discovery of its counsel's default.

The Tenth, Ninth, Seventh, Fifth and First Circuit Courts of Appeal are in agreement that a finding the default was willful standing alone can preclude a finding of "good cause" without any consideration of other equitable factors. *Alan Neuman Prod., Inc. v. Albright*, 862 F.2d 1388 (9th Cir. 1988) (affirming refusal of a Rule 55(c) motion based solely on plaintiff's willful conduct); *In re Dierschke*, 975 F.2d 181 (5th Cir. 1992) (court need not consider other factors if default willful); *KPS & Associates, Inc. v. Designs By FMC, Inc.*, 318 F.3d. 1, 2003 WL 174818 (1st Cir. Jan. 28, 2003) (motion for relief from default properly denied where absence of any explanation for default led to conclusion default was willful); *Hunt v. Ford Motor Co.*, 65 F.3d 178 (Table) 1995 WL 523646 (10th Cir. Aug. 29, 1995) (A-88–A-98.) (If the default was the result of culpable conduct the district court may refuse to set aside the default on that basis alone.)

The Sixth and Third Circuits mandate the consideration and balancing of all equitable factors even when the default is willful. *Shepard Claims Service, Inc. v. William Darrah & Assocs.*, 796 F.2d 190 (6th Cir. 1986) (denial of motion due to counsel's culpable conduct improper where delay was short, non-defaulting party was not prejudiced and defendant had a meritorious defense); *Gold Kist, Inc. v. Laurinburg Oil Co., Inc.*, 756 F.2d 14 (3rd Cir. 1985) (court must consider all factors, including prejudice to plaintiff, whether defendant has meritorious defense, and whether default was the result of culpable conduct).

The Federal Circuit expressly stated that there exists an apparent conflict on this issue within the Eighth Circuit.

See McMillian/McMillian, Inc. v. Monticello Ins. Co., 116 F.3d 319 (8th Cir. 1997) (district court may disregard other factors when default is willful); *Ackra Direct Mktg. Corp. v. Fingerhut Corp.*, 86 F.3d 852 (8th Cir. 1996) (default appropriate where the result of willful conduct); *compare Union Pac. R.R. v. Progress Rail Servs. Corp.*, 256 F.3d 781, 783 (8th Cir. 2001)("reason for a party's delay" does not give district court "carte blanche. . .to disregard the other considerations. . .")[1].

A. The Federal Circuit Adopted the Liberal Good Cause Test Employed by the Sixth and Third Circuits.

After recognizing the conflict among the Circuits, the Federal Circuit stated that, "[I]n our view, we find it unnecessary to reconcile these seemingly inconsistent lines of . . .precedent after we compare the conduct in this case to those excused in other binding precedents." However, the Court proceeded to implicitly adopt the more liberal approach employed by the Sixth and Third Circuits by finding the District Court's specific finding of willful default was outweighed by several equitable considerations, including the length of the delay following the willful default, and Premier's post default attempts to remedy the unexplained and willful default of its counsel. The Court concluded, "In all, because of the short delay in this case, the poor communication that caused it, and the action Premier immediately took to cure its filing oversight, the district court clearly erred by finding that this delay and Premier's awareness of the complaint could

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[1] The language in *Union* appearing to adopt the more liberal good cause standard advocated by the Sixth and Third Circuits is arguably dicta due to the fact that there was no factual finding of willful or culpable conduct by the lower court in that case.

alone amount to "contumacious" conduct and an intentional failure to comply with court mandated guidelines." (A-14–A-15.)

There is no practical distinction between the Federal Circuit's characterization of its analysis as the evaluation and weighing of all equitable considerations as part of the willfulness determination, and the approach of the Sixth and Third Circuits, which is to consider all equitable considerations as part of the "good cause" determination to see if they outweigh a finding of willfulness. This is especially true in the present case, where the factors the Federal Circuit determined outweighed the District Court's finding of willfulness, namely Premier's post default efforts to remedy its counsel's default and the resulting delay, are completely irrelevant to the determination of whether counsel's completely unexplained failure to file a responsive pleading was willful. Consistent with the Sixth and Third Circuit approach, the Federal Circuit considered equitable factors completely unrelated to the willfulness of counsel's default and found they constituted "good cause" under Rule 55(c).

The Federal Circuit's adoption of the more liberal good cause test mandating consideration of all equitable factors despite a finding of willful default is illustrated by its reliance on and comparison to the facts involved in *Union Pac. R.R. Co. v. Progress Rail Servs.*, 256 F.3d 781 (8th Cir. 2001) and *Johnson v. Dayton Elec. Mfg. Co.*, 140 F.3d 781 (8th Cir. 1998). Unlike the present case, neither *Johnson* nor *Union* involved factual determinations of willful or culpable conduct by the lower court. Accordingly, the Eighth Circuit's review in both cases involved a review of all relevant factors under the "good cause" standard, including the length and reason for the delay in filing an answer.

B. The Tenth, Ninth, Seventh, Fifth and First Circuits are Correct that a Finding of Willful Default Should Be Allowed to Preclude a Showing of "Good Cause" Without Consideration of Post Default Factors such as the Length of the Delay or a Party's Attempts to Remedy the Default.

In *Pioneer Investment Services Co. v. Brunswick*, 507 U.S. 380, 396-97 (1993), this Court addressed the issue of whether the analogous "excusable neglect" standard for obtaining relief from a default judgment under Rule 60(b) is broad enough to cover defaults caused by inadvertence, mistake or carelessness, or is limited to situations where the default is caused by intervening circumstances beyond the parties control. This Court held that excusable neglect can include defaults caused by inadvertence, mistake or carelessness. In addition, this Court enunciated the well recognized test presently utilized for determining entitlement to relief from both default judgments under Rule 60(b) and the entry of defaults under Rule 55(c). *See TCI Group Life Ins. Plan v. Knoebber*, 244 F.3d 691 (9th Cir. 2001); *Feliciano v. Reliant Tooling Co.*, 691 F.2d 653, 656 (3d Cir. 1982) (explaining that the same factors that constitute "good cause" under Rule 55(c) govern the lifting of default judgments under Rule 60(b)); *United Coin Meter Co. v. Seaboard Coastline R.R.*, 705 F.2d 839, 845 (6th Cir. 1983). The test allows for the consideration of multiple equitable factors, including without limitation, the danger of prejudice to the defaulting party, the length of the delay and its impact on the judicial proceedings, the reason for the delay, including whether it was within the reasonable control of the movant, and whether the movant acted in good faith. *Pioneer*, 507 U.S. at 395.

Despite adopting the broader definition of "excusable neglect," and stating a test allowing for the consideration of multiple equitable factors, this Court was very careful to place a limit on its holding. Specifically, the Court was careful to instruct that if there is "any indication at all of bad faith," a district court does not abuse its discretion in failing to grant relief from a default. *Id.* at 398. This limitation is arguably in response to the well reasoned concerns expressed by dissenters, Justices O'Connor, Scalia, Souter and Thomas, that the broad equitable factor test enunciated by the Court could be applied in a manner which defeated the purpose of default rules. According to the dissent:

> The [majority] does recognize one guidepost. It states that the requirement of "excusable neglect" should be construed so as to "deter creditors or other parties from freely ignoring court-ordered deadlines in the hopes of winning a permissive reprieve. . .But rather than concentrating on the types of culpable neglect that ought to be deterred, the majority immediately shifts its focus to considerations such as the *effect* of the failure to take timely action, including prejudice to the debtor and the effect on judicial proceedings. If the goal of requiring neglect to be "excusable" is to deter culpable noncompliance, the consequences of such noncompliance should be irrelevant. . .

Id. at 403-404 (citations omitted). The dissenters in *Pioneer* expressed legitimate concerns about a broad equitable factor test being utilized to allow the consequences of a default, or events occurring after the default, to outweigh a determination the default was willful.

The present case illustrates how the liberal "good cause" test adopted by the Sixth and Third Circuits, and applied by the Federal Circuit in this case, completely eliminates the careful limitations imposed by the Supreme Court for cases involving a finding of willful default. It also demonstrates how the application of the Sixth and Third Circuit approach gives rise to the very deterrent problems expressed by the *Pioneer* dissenters. Specifically, the Federal Circuit determined that events occurring subsequent to the willful default, including the length of delay in filing an answer, as well as Premier's actions after learning of its counsel default, outweigh counsel's completely unexplained, and therefore willful, failure to file a timely answer.[2]

As feared by the Pioneer dissenters, the Federal Circuit decision allows counsel to intentionally ignore the deadline for answering a complaint, and fail to provide any reason, justification or excuse for the default, as long as she does not wait *too long* to file the answer and does not take *too long* to attempt to remedy the default.[3] To avoid such an absurd result, and harmonize the present conflict among the circuits, the approach adopted by this Court in *Pioneer Investment v. Brunswick*, 507 U.S. 380, 396-97 (1993) for Rule 60(b) determinations should be applied to Rule 55(c) "good cause" determinations. As stated by this Court in

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[2] In addition to the unexplained failure of Premier's counsel to answer the complaint in a timely manner, the District Court's finding of willful and culpable conduct is also supported by the Court's determination that Premier made false representations to the court that its former CEO Jeffrey Cohen was unexpectedly removed. As noted by the District Court, Cohen's removal as CEO was a planned event and Cohen remained a member of Premier's Board of Directors. (A-49–A-50.)

[3] Which raises the inevitable and unanswerable question of how many days is too long to delay in filing the answer (according to the Federal Circuit 37 days late is acceptable).

Pioneer, if there is "any indication at all of bad faith," a District Court does not abuse its discretion in failing to set aside the entry of default. This is consistent with the law of the Tenth, Ninth, Seventh, Fifth and First Circuits, wherein a finding of willful default suffices to preclude a finding of "good cause" without the need for consideration of any additional equitable factors.

A Counsel's Completely Unexplained Failure to Timely Serve or File a Responsive Pleading Constitutes a Willful Default Regardless of the Length of Delay Caused by the Default or the Actions of the Client Following Discovery of the Default.

This Court's decision in *Pioneer Investment Services Co. v. Brunswick*, 507 U.S. 380 (1993) mandates that clients must be held accountable for the acts and omissions of their attorneys and that it is error for a court not to independently review and evaluate whether the omissions of a defaulting party's attorney are excusable. *Id.* at 396-397. In addition, the party seeking relief from the entry of default under Rule 55(c) has the burden of proof to establish the existence of good cause for setting aside the entry of default. *TCI Group Life Ins. Plan*, 244 F.3d at 696. Lastly, the Circuits which have addressed the issue have unanimously determined that in the absence of any excuse or justification for the default, the default must be considered willful. *KPS & Associates, Inc.*, 318 F.3d. 1, 2003 WL 174818 (1st Cir. Jan. 28, 2003) (in the absence of any explanation for the default, argument that default not willful lacked any factual predicate and was properly rejected); *Hunt v. Ford Motor Co.*, 65 F.3d 178 (Table), 1995 WL 523646 (10th Cir. Aug. 29, 1995) (A-88–A-98.) (a defendant's conduct is culpable if he has no excuse for the default).

The Federal Circuit's decision is in direct conflict with this Court's requirement that the actions of the defaulting party's counsel must be independently evaluated. The decision is completely devoid of any discussion of attorney

Clulow's unexplained failure to answer the complaint in a timely fashion. The only mention at all in the Federal Circuit opinion of the facts surrounding Wilson Sonsini's failure to file a timely answer is a mistaken factual conclusion that Premier advised attorney Paul Davis the dispute between the parties would be handled "CEO to CEO" *after* being served with the summons and complaint. Specifically, the opinion states:

> Songey forwarded the [summons and complaint] to both Premier's outside law firm and its CEO, Cohen. Cohen *in turn* told Songey and Davis that he himself would tend to the Advanced lawsuit, "CEO to CEO," and that they should not concern themselves with it (E.g., J.A. 413, 416)

(A-6.) (italics added).

As explained above, the Davis' Affidavit cited and relied on by the Federal Circuit reveals that Cohen made the "CEO to CEO" statement to Davis *two months before* the summons and complaint were served. (A-73.) In addition to the fact that the "CEO to CEO" statement was made more than two months before service, it also irrelevant because there is absolutely no evidence in the record the statement contributed in any way to Wilson Sonsini's failure to file a timely responsive pleading. Specifically, Davis has not testified he was in any way involved in Wilson Sonsini's failure to file a timely answer. On the contrary, Davis testified he was not even made aware the complaint had been served until after the default. (A-77.) Moreover, there is no evidence in the record the alleged statement was ever passed on to Mr. Clulow, who, according to the record, was the only

Wilson Sonsini lawyer with knowledge the complaint had been served prior to the default and therefore responsible for filing a timely responsive pleading.

The Federal Circuit's opinion is also in direct conflict with the rule that the party seeking relief from the entry of default bears the burden of establishing the existence of "good cause." It is also in direct conflict with the unanimous decisions of other Circuits holding that in the absence of any excuse or justification for the default, a party seeking relief fails to meet their burden and the default must be considered willful. The Federal Circuit's refusal to evaluate the conduct of Premier's counsel, as well as its holding that the District Court *abused its discretion* in finding the default to be willful despite the absence of any attempted or purported justification or excuse for the conduct of Premier's counsel, is such a departure from the established law of both this Court and the other Circuits as to warrant review of this matter and the exercise of this Court's supervisory powers.

CONCLUSION

This case presents a recurring and recognized conflict among the United States Circuit Courts of Appeal and involves a fundamental and important policy concern regarding the role of default in: 1) enforcing compliance with the rules of procedure; and 2) maintaining an orderly and efficient judicial system. In addition, the Federal Circuit's refusal to evaluate the conduct of Premier's counsel, as well as its finding that the District Court *abused its discretion* in finding the default to be willful despite the absence of any attempted or purported justification or excuse for the conduct of Premier's counsel, is such a departure from the established law of both this Court and the other Circuits as to warrant review of this matter and the exercise of this Court's supervisory powers. Petitioner therefore respectfully requests

that the Court grant its petition for writ of certiorari to review the decision of the Federal Circuit.

Dated: February 20, 2003

Respectfully submitted,

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UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

02-1271,-1272

ADVANCED COMMUNICATION DESIGN, INC.,

Plaintiff-Appellee,

v.

PREMIER RETAIL NETWORKS, INC.,

Defendant-Appellant.

ORDER

A combined petition for panel rehearing and for rehearing en banc having been filed by the APPELLEE, and a response thereto having been invited by the court and filed by the APPELLANT, and the petition for rehearing having been referred to the panel that heard the appeal, and thereafter the petition for rehearing en banc and response having been referred to the circuit judges who are in regular active service,

UPON CONSIDERATION THEREOF, it is

ORDERED that the petition for panel rehearing be, and the same hereby is, DENIED and it is further

ORDERED that the petition for rehearing en banc be, and the same hereby is, DENIED.

The mandate of the court will issue on November 29, 2002.

FOR THE COURT,

s/Jan Horbaly
Clerk
Dated: November 22, 2002

cc: Martin R. Lueck
John B. Lunseth II

ADV COMMUNICATION V PREMIER RETAIL, 02-1271, -1272
(DCT - 01-CV-0983)

****
* Note: Pursuant to Fed. Cir. R. 47.6, this order is not *
* citeable as precedent. It is a public record. *
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United States Court of Appeals for the Federal Circuit

02-1271, -1272

ADVANCED COMMUNICATION DESIGN, INC.,

Plaintiff-Appellee,

V.

PREMIER RETAIL NETWORKS, INC.

Defendant-Appellant.

DECIDED: September 23, 2002

Before NEWMAN, MICHEL and DYK, Circuit Judges. MICHEL, Circuit Judge.

Defendant Premier Retail Networks, Inc. appeals from a partial default judgment by the United States District Court for the District of Minnesota, finding that Premier's 37-day delay in filing an answer resulted from "contumacious" misconduct and thereby justified both the denial of Premier's motion to set aside the entry of default and the grant of a default judgment. Advanced Communication Design, Inc. v. Premier Retail Networks, Inc., No. 01-983 (D. Minn. Feb. 21, 2002). Further, Premier appeals the district court's entry of a preliminary injunction that, in addition to the partial default judgment, relied on the finding that Plaintiff Advanced

Communication Design, Inc. would likely establish infringement of its patent, U.S. Patent No. 6,133,908, by three versions of Premier's accused "Interactive Network" apparatus.

Because Defendant Premier's delay involved unintentional wrongdoing only, we conclude that the district court abused its discretion by finding that a short delay and Premier's awareness of the complaint evidenced the willfulness that could alone justify the entry of a default judgment. Accordingly, we reverse and remand for additional proceedings, including a determination on liability.

For the preliminary injunction, we affirm the district court's ruling as to one of the accused versions of the "Interactive Network" but reverse as to the other two versions. Acting within its discretion, the district court reasonably found that one of these versions likely does not contain a "local area network" or "LAN" -- regardless of which definition it relied on for that term -- and that this version of the accused device therefore likely falls within the scope of the claimed invention. Notably as well, Premier's own engineer does not assert that this version operates without using a LAN.

Further, the district court correctly determined for purposes of the preliminary injunction that the "directly connected" limitation covers more than simply an embodiment described in the rest of the specification; it likely covers the ordinary meaning of that limitation, as understood by an artisan of ordinary skill. And the court did not clearly err in finding that the "data control means" limitation was likely satisfied. Given Advance's likelihood of success of proving infringement as to this particular version of the "Interactive Network" and the absence of any serious challenge to the '908 patent's validity, we also find no abuse of discretion with the court's analysis of the remaining preliminary-injunction factors, including its irreparable-harm analysis.

For the other two versions of the accused Interactive Network, however, the district court abused its discretion because not only did it fail to assign the claim term "local area network" its presumptive ordinary meaning, it also credited Advanced's conclusory assertion that the "Interactive Network" does not contain a LAN. Indeed, the affidavit on which Advanced relies does not even specify whether all three versions of the accused device operate without a LAN or even whether three versions of the Interactive Network exist. Given that a movant for a preliminary injunction always maintains the burden of establishing an entitlement to such extraordinary relief, we conclude that Advanced's conclusory assertion cannot establish an entitlement to that relief here. Accordingly, we reverse the district court's order to the extent it enjoins Premier from making, using, selling or offering to sell these two versions of the Interactive Network.

The first part of this opinion will discuss the relevant background to the default judgment ruling and the district court's analysis. It will then proceed directly to our analysis of that issue. We then discuss the '908 patent, the district court's preliminary injunction ruling and our analysis of it.

I

As recounted by the district court, the pretrial discussions between the parties here began well before the filing of Plaintiff Advanced's complaint. To begin, on February 15, 2001, Advanced's Chief Executive Officer, Marco Scibora, sent a letter to Premier's president advising him that Premier's "Interactive Network" product was Infringing Advanced's '908 patent. A month later, on March 7, 2001, Premier's CEO -Jeffrey Cohen -- called Advanced's Scibora, to see whether they could "amicably" resolve the dispute.

On April 9, 2001, lawyers from each company held a teleconference so that Advanced could learn more about Premier's allegedly infringing Interactive Network. A few days later, on April 12, 2001, the CEO from each company (Scibora and Cohen) met to discuss a potential settlement. The parties offer different accounts about the conversation that followed: according to Scibora, he offered to settle the dispute "if and only if" the parties could reach a "viable" business resolution; according to Cohen, the parties had reached a handshake agreement in which Advanced agreed not to sue Premier for its alleged infringement. (E.g., J.A. 407.)

Regardless, on April 20, 2001, Scibora and Advanced's attorneys telephoned Premier and its outside patent counsel (Paul Davis, Esq., of the law firm Wilson Sonsini Goodrich & Rosati LLP) again to learn more about Premier's accused product. During this conversation, asserts Advanced, Premier's managerial and engineering personnel described the structure and function of the Interactive Network, a description that led Advanced to confirm that this product was in fact infringing the '908 patent. (E.g., J.A. 287-88, 330.)

On May 3, 2001, Advanced's patent attorney delivered another letter to Premier's attorney, Davis. The letter described the accused Interactive Network and explained how it infringed the '908 patent; further, it offered to resolve the dispute amicably. Neither Advanced nor its attorneys received a response to the letter, however, even though counsel subsequently called Premier's attorney about the matter.

On June 1, 2001, Advanced filed -- but did not serve -- a complaint against Premier alleging infringement of the '908 patent. See generally Fed. R. Civ. P. 4(m) (giving plaintiff up to 120 days to serve the complaint and summons after filing them with the court). On June 21, 2001, another attorney for Advanced wrote another letter to counsel for Premier, asking again for a response to Advanced's earlier May 2001 letter. Premier did not respond.

Several weeks passed without any communication and then, on August 7, 2001, Advanced's CEO Scibora wrote to Premier's CEO Cohen, advising that Advanced had filed its complaint and that Premier's attorney (Davis) had not yet responded to any of the previous letters from Advanced or its counsel. The letter also cautioned that if Advanced received no response by August 16, 2001, it would proceed with the litigation.

A

On August 21, 2001, having not heard from Premier, Advanced had its complaint served on Premier's CFO Songey (J.A. 254, 321), thereby triggering the 20-day period for filing a responsive pleading or motion. See Fed. R. Civ. P. 12(a). Songey forwarded the process to both Premier's outside law firm and its CEO, Cohen. Cohen in turn told Songey and Davis that he himself would tend to the Advanced lawsuit, "CEO-to-CEO," and that they should not concern themselves with it. (E.g., J.A. 413, 416.) Shortly thereafter, however, Cohen stepped down as CEO and Chairman of the Board; and while Cohen kept his seat on Premier's Board of Directors, he "abruptly" vacated the Premier premises on August 24, 2001, or so. (J.A. 992.)

The 20-day period for filing a response to the Advanced complaint passed without Premier filing any response whatsoever. Approximately two weeks after this filing deadline, on September 25, 2001, Advanced's attorney

contacted Wilson Sonsini to advise Davis of Premier's overdue response and to ask about the status of Premier's answer. (J.A. 305, 413.) According to a contemporaneous memorandum recorded by Advanced's attorney, Davis said he knew about the complaint; but he expressed "surprise" that Premier had not yet responded. (See J.A. 946.) Davis also did not say whether his firm intended to represent Premier in this litigation, and nor did he affirmatively indicate that Premier intended to respond at all. (See J.A. 305, 413, 946.)

The next day, on September 26, 2001, Advanced applied to the district court clerk for the entry of a default against Premier. See Fed. R. Civ. P. 55(a) (authorizing the clerk of court to enter a default against a party who "has failed to plead or otherwise defend" against a litigation). The clerk granted the application and entered the default.

Various officers at Premier, including CFO Songey, aver that they only first became aware of its overdue answer on October 8, 2001, at a meeting with Premier's attorneys. (J.A. 393, 416.) Premier then instructed its counsel to get a response on file as quickly as possible. And Premier's attorneys, on October 15, 2001, then contacted Advanced's attorneys and also learned about the entry of default. Two days later, on October 17, 2001, Premier filed its answer -- 37 days after the filing period had passed. Advanced, meanwhile, also moved on that same day for both a partial default judgment and a preliminary injunction. Premier opposed the motions and further moved to set aside the entry of default for good cause shown.

B

After a hearing, the district court denied Premier's motion to set aside the entry of default and granted Advanced's motion to enter a default judgment. As the district court saw it, Premier's conduct evinced a pattern of willfully ignoring communication about the alleged infringement. The court drew this inference of culpability

from the facts that Premier had been personally served with the summons and complaint on August 21, 2001, and that Premier, through its CFO Songey, had forwarded that complaint to its attorneys and the CEO at the time, Cohen. Moreover, reasoned the court, when Advanced's counsel contacted Premier's counsel Davis about the status of Premier's overdue response, Davis indicated that he knew of the complaint but said nothing about whether Premier intended to answer.

Relying heavily on precedent from the Fifth Circuit, the Ninth Circuit and district court opinions, from New York, New Jersey and other non-binding authorities, the court further rejected the excuse that CEO Cohen's "unexpected and disruptive departure" from Premier caused or at least contributed to Premier's late filing. Informed by these non-binding precedents, the court simply concluded that this excuse, even if true, did not relieve Premier of its obligation to defend the lawsuit. Citing an opinion from a district court residing in the Eleventh Circuit, the court determined that organizations must have "systems" or procedures for checking up on matters like these.

As to both the motion to set aside the entry of default on the one hand and to enter a default judgment on the other, the court concluded that it need only consider Premier's "contumacious" conduct. This was so, the court continued, because an apposite Ninth Circuit decision instructed that a finding of culpable conduct can alone justify a default judgment and thereby excuse a district court from having to analyze other relevant considerations. (See J.A. 11-14) (comparing this case to Alan Neuman Prods., Inc. v. Albright, 862 F.2d 1388, 1391 (9th Cir. 1998) and citing Inman v. Am. Home Furniture Placement, Inc.,120 F.3d 117 (8th Cir. 1997), Ackra Direct Mktg., Corp. v. Fingerhut Corp., 86 F.3d 852 (8th Cir. 1996)).

This appeal followed.

II

The entry of default must precede the entry of a default judgment if a party fails o respond to a pleading or to otherwise defend as required by the Federal Rules of Civil Procedure. Fed. R. Civ. P. 55(a), (b). A defaulting party may remove the entry of default, however, upon a showing of "good cause," Fed. R. Civ. P. 55(c). Indeed, a party may even undo the entry of a default judgment, provided it can establish "excusable neglect" under the more stringent requirements of Fed. R. Civ. P. 60(b). Fed. R. Civ. P. 55(c); accord Johnson v. Dayton Elec. Mfg. Co., 140 F.3d 781, 783-84 (8th Cir. 1998) (explaining that although "good cause" under Rule 55(c) and "excusable neglect" under Rule 60(b) examine the same factors, "most decisions . . . hold that relief from a default judgment requires a stronger showing than relief from a mere default order") (citations omitted). Eighth Circuit precedent governs our analysis of this procedural issue.

In addition, the "more lenient 'good cause' standard" under Rule 55(c) applies here because Premier filed an answer and moved to set aside the entry of default before the district court ever entered a default judgment. See Johnson, 140 F.3d at 783-84 (holding that the "more lenient" good cause standard -- as opposed to the stricter Rule 60(b) "excusable neglect" standard -- applied when defendant filed an answer and moved to set aside the entry of default before the district court had properly entered a default judgment). Further, we review a district court decision finding no good cause and entering a default judgment for an abuse of discretion, Hall v. T.J. Cinnamon's, Inc., 121 F.3d 434, 435 (8th Cir. 1997).

The Eighth Circuit has stated that the equitable "good cause" analysis requires consideration of "all [the] relevant circumstances" surrounding the default, with an emphasis on the following factors: (1) the length and reason for the delay in filing an answer or motion, along with consideration of whether the defendant acted in good faith; (2) the prejudice

that this delay caused the plaintiff to incur; and (3) whether the defendant has a meritorious defense. E.g., Union Pac. R.R. Co. v. Prowess Rail Servs.Corp., 256 F.3d 781, 782-83 (8th Cir. 2001) (citing and quoting Pioneer Inv. Sews. Co. v. Brunswick Assoc. Ltd. P'ship, 507 U.S. 380, 394-95 (1993)); Johnson, 140 F.3d at 784. As to the first factor, the precedents have consistently drawn a distinction between intentional, "contumacious" conduct on the one hand versus negligent conduct and a "marginal failure" to meet pleading deadlines on the other. Johnson, 140 F.3d at 784; Inman v. Am. Home Furniture Placement, Inc., 120 F.3d 117,119 (8th Cir. 1997); Ackra Direct Mktg. Corp. v. Finqerhut Corp., 86 F.3d 852, 856 (8th Cir. 1996). The former may warrant the denial of "good cause" and the entry of a default judgment; the latter may not, and a district court that essentially rules or finds to the contrary abuses its discretion. Id.; Jones Truck Lines, Inc. v. Foster's Truck & Equip. Sales, Inc., 63 F.3d 685, 688 (8th Cir. 1995).

The Eighth Circuit has also recently emphasized that while the reason for the delay, including a defendant's putative negligence or "blameworthiness," constitutes a "key consideration" in deciding whether to excuse a default or default judgment, a district court ought not focus narrowly on that behavior. Union Pac. R.R. Co., 256 F.3d at 783. Indeed, the "reason for a party's delay" does not give a district court "carte blanche...to disregard the other considerations" relevant to the default inquiry. Id. According to recent precedent, a "district court is required to engage in a careful balancing of multiple considerations," including the other two factors listed above. Id. (emphasis added). At the same time, as Advanced hastens to note and as the district court here stated, other binding precedents clearly indicate that a district court may indeed disregard these other considerations when the defaulting party's behavior involves "'willful violations of court rules, contumacious conduct, or intentional delays.'" McMillan/McMillan, Inc. v. Monticello Ins. Co., 116 F.3d 319, 320 (8th Cir. 1997) (citation omitted); Ackra Direct Mktg., 86 F.3d at 856-57.

In our view, we find it unnecessary to reconcile these seemingly inconsistent lines of Eighth Circuit precedent after we compare the conduct in this case to those excused in other binding precedents. In Union Pacific, for example, the Eighth Circuit determined that even under the more-strict "excusable neglect" standard of Rule 60(b), the district court abused its discretion by entering a default judgment against a defendant whose failure to timely answer resulted from a "recording error by its legal department." 256 F.3d at 782. The defendant's negligence involved a "minor mistake," the court

reasoned, and the trial court erred by focusing exclusively on that conduct instead of also considering (among other factors) the length of the delay, the prejudice to the plaintiff and the existence (if any) of a meritorious defense. Id. at 783. In addition, similar to this case, the defendant there contacted and began negotiating with plaintiff about having the default judgment set aside as soon as it learned of that judgment. Id. And when those negotiations failed, the defaulting defendant then moved to set aside the judgment "only three weeks after it had notice of the default and less than six months after [plaintiff had] filed its complaint." Id. (emphasis added).

Similarly, in Johnson, the Eighth Circuit held an abuse of discretion occurred when the district court found no good cause to set aside a default that resulted from "poor communication" between the defendant, its attorney and its insurer. 140 F.3d at 784-85. As the reviewing court saw it, the defendant and its attorney did indeed act "carelessly," and they even exhibited a "cavalier approach" to the filing deadline; but neither the defendant nor its counsel's conduct demonstrated an "intentional flouting or disregard of the court and its procedures." Id. at 785. In addition, the tardy defendant there attempted to cure its mistake within one day of learning of the default. Id. And thus, coupled with a showing of a meritorious defense and the absence of prejudice to the plaintiff, the Eighth Circuit reversed the trial court and found good cause to lift the entry of default. Id.

In Jones Truck Lines, the district court abused its discretion by declining to set aside a default judgment under the onerous "excusable neglect" standard (see Fed. R. Civ. P. 60(b)), given that the plaintiff there suffered no prejudice from the defendant's otherwise untimely filing. 63 F.3d at 687. Further, defendant's counsel in that case claimed the delay resulted from defendant's hope that the parties could settle out of court, a claim that the parties' correspondence substantiated. Id. at 687-88. This delay and the asserted reason for it simply did not show a "willful flaunting [sic] of

the [filing] deadline," the Eighth Circuit concluded. Id. That the defendant filed an answer as soon as the opposing party alerted it to the default judgment only further supported this conclusion, thereby rendering the trial court's finding of willfulness "clearly erroneous."

A

And so it goes in this case. Premier appears to have acted in good faith because while it did not respond to pre-complaint offer letters, nor did its relatively brief failure to meet the filing deadline result from an intentional flouting of the rules themselves. To the contrary, as shown by the record, its 37-day delay instead resulted from otherwise excusable conduct, including a misunderstanding and perhaps even a "cavalier approach" by its attorneys, as well as a lapse in communication between the outgoing CEO Cohen and the rest of the Premier management team, CFO Songey. The district court erroneously transformed the relatively short delay and Premier's awareness of the pending complaint into a reason in and of itself for finding intentional wrongdoing. Again, Premier's error exhibited the same sort of lax approach found in Union Pacific, Johnson and Jones Truck, supra; but also like the tardy defendants in those precedents, it does not evince an intentional flouting or blatant disregard of court rules and procedures. Further, as stressed in the precedents discussed above, Premier took action as soon as it learned of the default, initiating communication via its attorneys with Advanced only a week thereafter and filing an answer only two days after that counsel-to-counsel communication. Accordingly, the district court abused its discretion by finding that Premier's behavior constituted inexcusable contumacious conduct.

Neither Hall nor Inman, both cited by Advanced, compels a different outcome. In no abuse of discretion stemmed from the district court's entry of a default judgment when, unlike here, the defendant "watched the litigation from

afar for over seven months," despite its knowledge of both the lawsuit and plaintiffs request for a default judgment. 121 F.3d at 435. In addition, the defaulting party showed little or no regard for court rules and filing deadlines, as it even wrote a letter to the district court saying that it simply could not afford to hire local counsel to defend it in the subject litigation. Id. And yet, as the Eighth Circuit explained, the defendant belied its own written assertion to the trial court by thereafter retaining local counsel and subsequently moving to oppose the entry of a default judgment. Id. at 435-36.

Here, by contrast, Premier did not watch from "afar" as Advanced proceeded to obtain first an entry of default and then a default judgment. Instead, as soon as Premier realized that a default had been entered against it, Premier acted immediately and had its pleading filed -- only 37 days late as opposed to the seven-plus months' delay in Hall. And again, although Premier was aware that it had an imminent or even pending infringement action with Advanced, the record does not show that Premier was simply flouting the rules or otherwise playing games with either Advanced or (as in Hall) the district court. Indeed, the memorandum by Advanced's own attorney reflects Premier counsel's "surprise" that Premier had not yet responded to the service of Advanced's complaint. As stated above, that failure perhaps constitutes a lax or "cavalier" approach to the filing deadlines; it does not show an intentional disregard or other contumacious conduct, the type of behavior needed to justify the entry of a default judgment without any consideration of the other "good cause" factors.

Likewise, in Inman, the Eighth Circuit found no abuse of discretion with the entry of a default judgment when the defaulting defendants blamed their attorney for failing to keep abreast of the litigation. 120 F.3d at 119. "Litigants choose counsel at their peril," the court reasoned. Id. at 118-19. Further, the attorney there had failed to answer a three-year-old complaint and had neglected to respond to plaintiffs

discovery requests and repeated inquiries from opposing counsel. Id. at 119. On top of that, the court reasoned, the defendants had also failed to appear for a scheduled deposition. Id. Last, neither the size of the damages judgment awarded against defendants nor the alleged strength of defendant's defense could overcome defendants' "dilatory conduct."

Inman does repel some of the arguments that Premier makes on appeal, including arguments that a party simply cannot blame its attorney for a default and cannot use the size of the judgment as the sole basis for undoing a default judgment. (On the other hand, Advanced overstates the import of Inman, as well as another precedent (Ackra, supra), by maintaining that these precedents render consideration of the size of a damages award "irrelevant." Those precedents said no such thing; they only indicated that the size of the judgments there could not overcome the other factors in those particular cases that augured in favor of entering a default.)

Still, Inman does not purport to overturn the precedents, discussed above, that excuse negligent and even "cavalier" behavior" -- by either the defaulting party or that party's attorneys -- as to court rules and procedures. See Union Pac., 256 F.3d at 782-83 (excusing untimely filing that resulted from a "recording error by [defendant's] legal department"); Johnson, 140 F.3d at 784-85 (excusing untimely filing that resulted from defaulting party and counsel's poor communication, carelessness and "cavalier approach" to the filing deadline). Equally important, the facts in Inman hardly resemble the background in this case. After all, unlike the situation there, Premier and its attorneys only failed to meet the filing deadline by 37 days (not three years).

In all, because of the short delay in this case, the poor communication that caused it, and the action that Premier immediately took to cure its filing oversight, the district court clearly erred by finding that this delay and Premier's awareness of the complaint could alone amount to

"contumacious" conduct and an intentional failure to comply with court-mandated deadlines. Accordingly, it abused its discretion in ruling on the motions. We therefore reverse the entry of the partial default judgment.

B

The analysis of the relevant prejudice and meritorious-defense factors shore up this conclusion. In the Rule 55(c) context, "prejudice" does not refer to a plaintiffs putative expectation that, after the filing period had passed without a response, it will automatically obtain a judgment or partial judgment in its favor See Johnson, 140 F.3d at 785 ("Relying on [a district court precedent], the [trial] court concluded that granting Dayton Electric relief would prejudice Johnson's 'expectations concerning the judgment' and her 'belief in the integrity of the system and the court's authority.' We reject this legal standard. Entry of default raises no protectable expectation that a default judqment will follow, and a party's belief in the integrity of the system must include, to be reasonable, knowledge that a system of integrity makes exceptions 'for good cause shown.' As numerous decisions make clear, prejudice may not be found from delay alone or from the fact that the defaulting party will be permitted to defend on the merits.") (emphasis added). Rather, prejudice refers to more concrete and litigation specific difficulties, "'such as loss of evidence, increased difficulties in discovery, or greater opportunities for fraud and collusion.'" Id. (citation omitted).

In this case, the record does not reveal that Advanced would incur any of these difficulties if the default were set aside. Nor does Advanced even claim as much, focusing instead on Premier's alleged contumacious conduct as the basis for upholding the district, court's ruling. Accordingly, the prejudice factor also cuts in Premier's favor and further counsels that we overturn the partial default judgment.

C

So too does the meritorious-defense factor. Again, in the Rule 55(c) context, a meritorious defense does not mean a defense that would indisputably compel a finding in the defaulting party's favor. See Id. Rather, a meritorious defense means that the evidence or argument proffered by the defaulting party could reasonably lead to a finding in the defaulting party's favor. See Id.

At least one of the defenses that Premier puts forth could compel an ultimate finding in its favor. As more fully discussed below, Premier argues that at least two of its accused "Interactive Network" products do not infringe the '908 patent because, unlike the claimed invention, these two versions use a "local area network" to connect the various stations of the preview device. The district court, for purposes of the preliminary injunction, essentially believed the contradictory (and conclusory) affidavit submitted by Advanced's CEO, Scibora. Nevertheless, in our view, a reasonable fact finder could still believe the detailed testimony recounted in Premier's affidavit, meaning a reasonable jury could indeed find in Premier's favor. Thus, Premier has offered a meritorious defense as contemplated by Rule 55(c), thereby offering yet another reason to reverse the district court's partial default judgment.

We next turn to the background underlying the district court's preliminary-injunction analysis, including a discussion of claim 1 of the '908 patent.

III

Broadly stated, Advanced's '908 patent claims an apparatus for allowing multiple customers at music or video retail stores to simultaneously sample an audio or visual product (e.g., a compact disc, a movie DVD or a video game) at the store itself. The invention purportedly reduces consumer frustrations with various audio-visual products and

thereby leads to increased sales for a retailer that uses the apparatus.

To that end, as shown by the description of the '908 patent's preferred embodiment, a customer may take the video cassette or other audio/video product that interests them to the first of three main components of the claimed invention, the consumer "preview station 20." At the preview station, the customer runs the bar code contained on the video or audio product across a bar card scanner. A "microcontroller 26" then takes the information fed into it by that bar code signal and sends it to the second main component of the claimed invention, the "preview station interface means," using, a six-conductor modulator cable 50. This cable in turn has the requested bar-code information passed through to another microcontroller 42. A "device driver 64," located within the third main component of the claimed apparatus the "data control means 60"), then sends a request to that same microcontroller 42, which then passes on the request via a "data control interface means" 48.

The device driver 64 then "polls" each of the preview station interface means 40, to have information exchanged between that interface means and the data control means. The device driver 64 then sends the barcode data to the application software 68, also contained within the data control means. That application software, as explained by the specification, then conducts a database search for the requested information on the data control means' hard drive 70. (The hard drive would need to have the requested information about the various video and audio products stored on it before a customer could actually use the claimed invention.) The data control means, using the various corresponding structures described in the specification, then has the requested information returned through the preview station interface means and finally back to the preview station itself, where the customer can view or listen to information about the scanned product, e. ., price of the product, artist of the CD or selected

excerpts from the audio or video product itself. The whole process lasts one or two seconds.

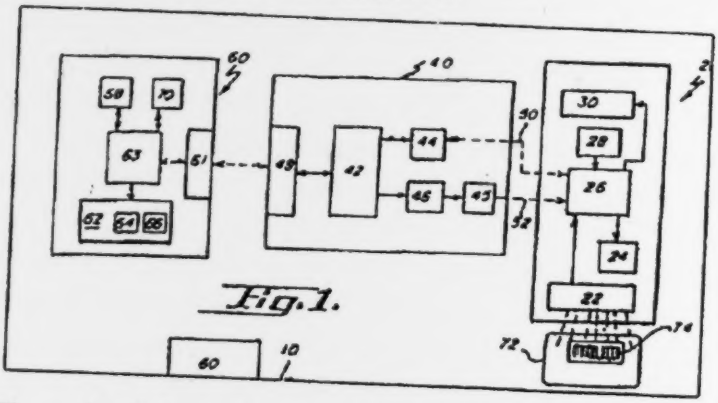

Fig. 1.

The only claim at issue in this case is claim 1 of the '908 patent:

> 1. A multi-station video/audio distribution apparatus that allows a plurality of users to simultaneously sample different video material and audio material, comprising:
>
> (a). at least two preview stations, said at least two preview stations each having a user input, an audio output such that an analog audio signal corresponding to said user input may be heard, and a video display such that video material corresponding to said user input may be seen;
>
> (b). data control means, said data control means for retrieving digitize audio and digitized video material corresponding, to each of said user inputs,
>
> (c). preview station interface means, said preview station interface means separate from and directly connected to said data control means and said at least two preview stations by non-switched connections not involving local area network or wide area network,

> said preview station interface means for transferring each of said user inputs from its respective preview station to said data control means, for receiving each of said digitized audio material corresponding to each of said user inputs, for converting each of said digitized audio materials to said analog audio signal and for transferring each of said analog audio signal to its respective preview station; and
>
> (d). video display interface means, said video display interface means separate from and directly connected to said control means and said video display by connections not involving a local area network or wide area network, said video display interface means for receiving each of said digitized video materials, corresponding to each of said user inputs, for converting each of said digitized video materials to a format acceptable to said video display, and for transferring said formatted video materials to said video display.

U.S. Patent No. 6,133,908, col. 8, lines 14-48 (issued Oct. 17, 2000). The three claim limitations at issue appear underlined, above: "local area network," as in the claimed invention cannot use such a network or "LAN" to transfer information from the preview station interface means to the data control means; "directly connected," as in the three main components of the claimed invention must exist separately but must also have a direct connection to one another; and "data control means," one of the three major components (along with the preview station and the preview station interface means), as shown in the diagram above at 60.

As to each, the rest of the specification says nothing about a local area network or "LAN." As to "directly connected," the specification merely mentions during its description of an embodiment that the "video display 80 does

not transfer data or information through the preview station microcontroller 26 but rather is directly connected to a video display interface means 82 through a high gauge wire 83 having RC connectors at either end." ('908 Patent, col. 5, line 65 - col. 6, line 2) (emphases added). Otherwise, the "directly connected" limitation is described only in the claims themselves; namely, dependent claims 17 (having "preview station interface means" and "video display interface means...directly connected to said data control means by a computer bus"), 18 (having "low voltage preview station interface means ... directly connected to said at least two preview stations by low voltage cables not involving a local area network") and 19 (having "low voltage preview station interface means . ..directly connected to said at least two preview stations by low voltage cables not involving a local area network") and independent claims 10 (requiring the same "directly connected" language as that used in claim 1, above) and 20 (same).

As to the third limitation in dispute, "data control means" (60, above), the specification makes clear that the structures used to perform the claimed function of "retrieving digitized audio and digitized video material corresponding to each of said user inputs" include:

> a standard computer platform that incorporates a power supply, a backplane/bus 61 that is connectable to the data control means interface 48 of the preview station interface means 40, a microprocessor 63, random access memory, and interfaces to various peripherals such as disk drives that operate in conjunction with disk controllers, modems, video displays, keyboards, and tape backup units. The data control means 60, or computer platform, utilizes operating system software 62 (e.g. UNIX) that has low level device drivers 64, file management utilities 66 and further utilizes application software 68 that

> operates within the computer platform to implement the full functionality of the apparatus 10. The computer platform also incorporates high-speed random access storage of audio and/or video material in digital form; the audio and/or video material is contained in data files stored on internal or external hard drives 70 that are connected to interfaces within the computer platform. '908 Patent, col. 3, line 64 - col. 4, line 14.)

As to the prosecution history, only Prēmier cites it; and then only to portions indicating that Advanced had added via amendment both the "directly connected" limitation and the "not involving a [LAN]" limitation so as to distinguish the '908 patent from a prior art reference ("Allen"). (See J.A. 506, 518, 526.) Unlike the Allen reference, said Advanced, "[c]laim 1 does not call for a network at all. Rather, claim 1 requires a direct, non-switched connection not involving a" LAN. (J.A. 551.)

A

The district court first justified the entry of a preliminary injunction on the strength of its partial-default judgment conclusion, saying that that judgment alone conclusively established the truth of the infringement allegations against Premier and thus entitled Advanced to an injunction pending a trial on damages. This conclusion is logically correct. But since the district court abused its discretion in entering a partial default judgment, we must also examine the separate analysis that the district court conducted under Fed. R. Civ. P. 65.

Citing the four well-known preliminary-injunction factors -- the likelihood of success on the merits, irreparable harm, a balancing of the hardships and the public interest, Reebok Int'l Ltd. v. J. Baker, Inc., 32 F.3d 1552, 1555 (Fed. Cir. 1994) -- the court first found that Advanced would likely establish that the "Interactive Network" infringes claim 1 of the '908 patent. This analysis revolved around the three limitations discussed above.

As to "non-switched connections not involving a local area network," the court construed that limitation to cover a "network involving switching hardware or software" and a "network that switches hardware and software." In so doing, the district court explained that the claim language itself requires that the invention not use a LAN or (as the district court defined that term, relying on the claim language itself) "switched connections." Further, as the district court understood it, the prosecution history clarified that any "local area network" is by definition "switched, not non-switched." Moving to, the fact-dependent infringement side of the analysis, the court also concluded that all three versions of Premier's accused "Interactive Network" likely do not use "switched connections" or LANs, thereby bringing them within the scope of the claim. As support for this fact-based conclusion, the district court cited Advanced's affidavits, as well as the affidavit from Premier's engineer, Daniel Kyte.

As to the "directly connected" limitation, Premier argued to the district court that this term meant "joined by a single wire without deviation." (J.A. 22, 427.) The court rejected this proposed construction, however, concluding instead that the limitation means "connected by non-switched connections not involving a local area network or wide area network." According to the district court, the claim language in claim 1(c) itself directly supported this construction, as it explains that the required "direct connection" occur by way of "non-switched connections not involving a" LAN.

Contrary to Premier's assertions, moreover, the specification did not purport to restrict the scope of the "directly connected" limitation to a "single wire"; such an understanding, it explained, would erroneously import a particular embodiment into the claim language. And the written description itself stated that, as to the described embodiment, the "present invention may be embodied in other specific forms without departing from the spirit of the essential attributes thereof." Last, in the district court's view, Advanced added the "directly connected" limitation during prosecution only to distinguish its invention from a prior art reference (Allen) that used a LAN; it did not add that language so as to narrow the limitation to a "single wire implementation."

Having resolved the "directly connected" definition (at least for preliminary injunction purposes), the court indicated that no factual disputes remained as to the term and whether it covered the corresponding element in the accused Interactive Network devices. In short, Premier's argument on this point rose and fell on the narrow interpretation it attempted to ascribe to the "directly connected" term. Accordingly, because the court rejected that narrow proposed construction, it found a likelihood of infringement as to this term, too.

As to the "data control means" limitation, the district court agreed with the parties that this was a means-plus-function limitation governed by 35 U.S.C. § 112 ¶ 6 Again citing the language of the claim itself, the court construed the limitation's function to cover "retrieving digitized audio and digitized video material corresponding" to the information requested by a customer via, the bar code contained on a particular CID package. And it determined that the corresponding structures that performed this function, see 35 U.S.C. § 112 ¶ 6, included "file management utilities," "data files stored on internal or external hard drives" as well as the other structures listed in the '908 patent specification at "Col. 4, line 64 through Col. 5, line 17." That citation to the specification identifies structures that constitute the invention's "data control means."

And, concluded the district court, the accused Interactive Network likely contains this limitation or its equivalent, too, given that it uses a "server" that performs the claimed function of retrieving digitized audio and video signals from a computer memory based on the information requested via the scanned-in bar code. In addition, in the district court's view, the accused device also contained "identical structure"; as with the structures disclosed in the claimed invention's specification, the Interactive Network also has: a standard computer platform with a microprocessor and random access memory; interfaces to various peripherals such as disk drives; operating system storage of audio or video material stored in an internal or external hard drive. The district court cited two affidavits to support this tentative finding.

B

Buttressed by a finding of a likelihood of infringement, the court's remaining analysis of the irreparable-harm, balance-of-harms and public-interest factors fell into place. As to irreparable harm, the court cited the rule

that a "clear showing" of infringement and that the asserted patent would likely withstand a validity challenge perforce entitled the movant to a rebuttable presumption of irreparable harm. Advanced made that showing here, the court indicated, thus triggering the presumption. As the court saw it, moreover, Premier could not rebut the presumption based solely on the fact that Advanced had offered to license the claimed invention during the parties' various communications.

Nor did the balance of harms tilt in Premier's favor, the court found. In short, the "economic harm" posed to Advanced's interests by the "unlicensed production and sale of the Interactive Network is obvious." And any alleged contrary harm to Premier paled in comparison, the court noted. Last, the strong public interest in protecting patent rights also weighed in Advanced's favor. Notwithstanding its ruling, the court agreed to stay the entry of the preliminary injunction pending this appeal.

On appeal, Premier challenges all but the public-interest finding. Given our deferential standard of review as well as the fact that the district court has not yet had the opportunity to conduct a Markman hearing, we reject these challenges as to one of the three versions of the Interactive Network. For the other two versions, we reverse.

IV

We review the grant of a preliminary injunction for an abuse of discretion. E.g., Amazon.com, Inc. v. Barnes and Noble.com, Inc., 239 F.3d 1343, 1350-51 (Fed. Cir. 2001). An abuse of discretion occurs when, for example, the trial court made a clear error of judgment in weighing the relevant factors or when it exercised that discretion based on an error of law or a clearly erroneous finding of fact. E.Q. id. at 1350. We discern one such pivotal error with the court's analysis.

A

Premier first argues that, as to the limitation "non-switched connections not involving a local area network," the district court erred by disregarding an affidavit from Daniel Kyte, the director of Premier's research and development. Kyte and Premier maintain that, unlike the claimed invention, accused versions 1.0 and 3.0 of the Interactive Network do in fact use a local area network or LAN. (J.A. 449-50.) (As the district court noted, not even Kyte avers that accused version 2.0 of the Interactive Network uses a LAN, meaning Premier seems to have conceded that this version likely contains this limitation.) Further, argues Premier, Advanced itself relied only on a conclusory affidavit from its CEO Scibora, as well as information that Advanced says it obtained via its telephone calls with Premier as to the elements of the Interactive Network. (This information is described in the May 3, 2001 letter that Advanced sent to Premier when it still thought the parties could resolve the dispute short of litigation.)

We agree and hereby undo the preliminary injunction as to versions 1.0 and 3.0 of the Interactive Network. Premier's evidence of infringement here consists of nothing more than a conclusory assertion by its CEO Scibora and an equally conclusory letter by its patent counsel. (See J.A. 301, 712.) Further, neither Scibora nor anyone else on Advanced's behalf asserts that their conclusions turned on their having personally observed the accused 1.0 and 3.0 versions. (Indeed, nothing in Advanced's affidavit or letter even recognizes that the accused Interactive Network has three versions.) Rather, Advanced's knowledge appears to rest on the telephone conversation that it had with Premier personnel before suit began. While statements from Premier's engineering and management personnel would not constitute inadmissible hearsay, see Fed. R. Evict. 801(d)(2)(D), nothing in the record reflects an admission that, as with the, patented apparatus, all three accused versions do not use a LAN. Further, nor does Advanced claim it had to rely on these

conclusory assertions because it never had the opportunity to observe versions 1.0 and 3.0 of the Interactive Network.

In short, we are convinced that the district court clearly erred by finding a likelihood of infringement by versions 1.0 and 3.0 based on the conclusory evidence submitted by Advanced, the party that bears the burden of showing an entitlement to the extraordinary relief of a preliminary injunction. See 11 A Wright & Miller, Federal Practice & Procedure § 2949, at 215 (2d ed. 1995) ("All affidavits should state the facts supporting the litigant's position clearly and specifically. Preliminary injunctions frequently are denied if the affidavits are too vague or conclusory to demonstrate a clear right to relief under Rule 65."); see also Canon Camp. Sys., Inc. v. Nu-Kote Int'l, Inc., 134 F.3d 1085, 1089 (Fed. Cir. 1998) (rejecting challenges to district court's findings for a preliminary injunction, as those challenges rested on a mere "conclusory statement").

We further conclude that the district court's finding of infringement by these two versions tainted its analysis with regard to the remaining preliminary injunction factors as well. Thus, Advanced may not enjoin Premier from making, using, selling or offering to sell versions 1.0 and 3.0 of the accused Interactive Network. Because Premier has not challenged the district court's conclusion about version 2.0 not containing a LAN -- regardless of the definition ascribed to it -- we uphold the preliminary injunction as to that version only. Because Premier argues that other limitations are also missing from its accused devices, including version 2.0, we address those arguments, below.

B

Premier next essentially posits that the claim limitation "directly connected" can cover no more than a particular embodiment disclosed in the '908 patent specification. In support of this position, Premier argues that the specification "only" once refers to the "directly connected" limitation, saying (as Premier recounts it) that the "video display unit does not transfer data or information through the preview station microcontroller" but instead has it "directly connected" to a video display interface means." From this, Premier extrapolates the following definition of "directly connected": a "connection that does not transfer signals through a microcontroller." (Appellant's Br. at 49-50.) The district court therefore erred, goes the argument, because it defined "directly connected" using only the surrounding claim terms themselves as well as the prosecution history, thereby ignoring the "express teaching of the ['908 patent] specification." (Id. at 50.)

For three reasons, we reject Premier's argument. First, as Advanced suggests (Appellee's Br. at 23-24), Premier is offering a new construction argument and definition on appeal, ones that it did not offer to the district court. As stated above, in the district court, Premier asserted that "directly connected" meant "joined by a single wire without any deviation." (J.A. 427.) Accordingly, because the orderly adjudication of a claim construction dispute requires a consistent and clear presentation of the same arguments to both the trial and appellate courts, Premier has waived its new claim construction theory and accompanying definition on appeal. We simply should not and cannot tolerate moving targets.

Second, a claim is given its ordinary meaning unless otherwise specified or indicated. See, e.g., CCS Fitness, Inc. v. New Brunswick , 288 F.3d 1359,136657 (Fed. Cir. 2002) (discussing the claim construction presumption that a claim term covers the full scope of its ordinary meaning and the

exceptions thereto). In this case, neither the specification's terse mention of the "single wire" nor the oblique reference that Premier now points to on appeal imparts a clear indication to limit the ordinary meaning of the claim term "directly connected." Thus, as the district court correctly explained, the intrinsic evidence does nothing here to detract from the scope of this limitation. Premier's argument thus fails for this reason as well.

Third, Premier suggests that the district court erred by defining "directly connected" in terms of the related language that also appears in claim 1. Argues Premier, the district court should have instead assigned this claim language an "independent" definition altogether, lest it otherwise render that claim language meaningless and thereby read it out of the claim in its entirety. (See Appellant's Br. at 49, 51) (citing Ethicon Endo-Surgery, Inc. v. U.S. Surgical Corp., 93 F.3d 1572, 1578 (Fed. Cir. 1996) ("If . . . 'connected to' should be read broadly to include elements which are connected directly or indirectly, then this language would read on a lockout mechanism located anywhere in the surgical stapler, and the 'connected to' limitation would be meaninglessly empty.").

This contention has some force, as it appeals to the maxim that the construction of any legal document -- like a statute, contract or patent -- should try to give meaning to every term in that document; otherwise, a lawyer or court will have erred by reading the chosen words of the document into oblivion. But in this instance, we see no abuse of discretion on these "independent-definition" grounds. In addition to the waiver and ordinary-scope impediments, Premier's attack fails to confront the fact that if a claim term (e.g., "directly connected") is sufficiently clear such that no other definition is needed, the district court simply has no duty to wave into existence a different definition, one that uses different words than the words actually used in the claim language itself. Notably, moreover, the only definition that Premier offers in

place of the district court's definition is the limiting definition that we have already rejected.

Accordingly, we reject the challenge to the district court's construction of "directly connected." Once the district court has an opportunity to consider more evidence and argument about the meaning of this and other disputed claim terms, it may change its ruling. Sofamor Danek Group, Inc. v. DePuy-Motech, Inc., 74 F.3d 1216, 1221 (Fed. Cir. 1996). And, of course, we have that same freedom on appeal. Compare CVI/Beta Ventures, Inc. v. Tura LP, 112 F.3d 1146 (Fed. Cir. 1997) (interpreting claims one way on appeal from a preliminary injunction based on the evidence presented) with CVI/Beta Ventures, Inc. v. Tura LP, 120 F.3d 1260 (Fed. Cir. 1997) (interpreting the same claims a different way on appeal from a final judgment based on the same evidence presented at the preliminary injunction stage). Given our disposition of this issue, we need not address Advanced's additional argument concerning the doctrine of claim differentiation.

C

The final infringement ruling that Premier challenges deals with the scope of the limitation "data control means," which the parties agree and the district court determined is a means-plus-function limitation governed by the strictures of Section 112 ¶ 6. As discussed above, the district court identified the function performed by this limitation as the very function claimed in claim 1; namely, the function of "retrieving digitized audio and digitized video material corresponding to each of said user inputs." '908 patent, col. 8, ll. 24-25. Further, the court identified the corresponding structures that perform this function by listing some of those structures and then identifying the rest with a pinpoint cite to the portion of the specification that lists them.

On appeal, Premier asserts the court did not identify all the structures needed to perform the claimed function.

Specifically, argues Premier, the district court failed to include among the corresponding structures the software that the preview station interface means" -- a "structure" that is absent from the accused Interactive Network. (Appellant's Br. at 53) (emphasis added). Premier further argues that the corresponding structure must also include application software that "performs a database search," and that the accused Interactive Network lacks such structure.

At this stage, however, without the benefit of a Markman hearing and without a more fully developed record, we are not prepared to identify the corresponding structure necessary to perform the claimed function. Accordingly, we do not decide whether the proper claim construction requires operating software that "polls" and application software that "performs a database search."

Even if Premier were correct that operating software that polls and application software that performs a database search were required corresponding structure, the district court did not clearly err in finding Advanced's likelihood of success of proving infringement to support this aspect of the preliminary injunction. Advanced CEO Marco Scibora testified that Premier's operating system software that interrupted was equivalent to operating system software that could "poll". "It is also my opinion that polling and interrupts ... are equivalent mechanisms for retrieving information from the user interface devices." (Scibora Aff. ¶ 10) (J.A. 1058.) Similarly, Scibora testified that Premier's application software that read in parameters from an ini text file was equivalent to the application software of the patent that "perform[ed] a database search." (See Scibora Aff. ¶ 7) (J.A.1058).

We see no basis for reversing the preliminary injunction on this ground.

V

Premier also argues that no presumption of irreparable harm should arise in this case, regardless of the likelihood-of-success analysis. Further, it asserts that even if the presumption does apply, Premier has rebutted it. Last, it challenges the district court's balancing of the harms as erroneous. We address these three issues seriatim.

A

As the district court correctly stated, a presumption of irreparable harm arises when the party seeking a preliminary injunction makes a "clear showing" of likely infringement and that the asserted patent claims will withstand the accused infringer's challenges to those claims' validity and enforceability. Amazon.com, 239 F.3d at 1350; Reebok, 32 F.3d at 1556. Because we have already determined that Advanced's conclusory assertions did not establish a likelihood of success as to versions 1.0 and 3.0, we must likewise determine that no presumption of irreparable harm applies to these two accused devices and that no preliminary injunction will enjoin them. Our remaining analysis on this point deals only with version 2.0.

Premier necessarily asserts that no presumption should arise as to version 2.0 either, even assuming the district court correctly analyzed the likelihood-of-success prong of the Rule 65 analysis. This is so, argues Premier, because the district court did not find the requisite "clear showing" of infringement. (Appellant's Br. at 57.) And nor did Advanced make a clear showing of validity, claims Premier, for the '908 patent has not yet undergone and survived the rigors of a trial on its validity, and it only issued a year before the start of this litigation.

We reject this pair of arguments. First, the district court plainly found the requisite "clear showing" of infringement, even stating in its analysis that only a "clear showing" could trigger the presumption. Premier seems to do

nothing more than quibble over the court's failure to repeat the words "clear showing" in the next sentence, when it applied the otherwise correctly stated rule to this case. Our court has admonished lawyers who pluck quotes from cases without giving effect to the case's "actual holding." Cf. Illinois Tool Works, Inc. v. Grip-Pak, Inc., 906 F.2d 679, 684, n.5 (Fed. Cir. 1990) ("Further, it is inappropriate to quote mere language from a court opinion, while disregarding the actual holding of the court and the factual pattern which gave rise to the quoted language.").

Nor does Premier's validity argument bar application of the presumption of irreparable harm. Simply put, Advanced needs to only defend against any challenges to the validity of the '908 patent; it need not make an independent "clear showing" of patent validity when no such challenge arises in the first place, given that all patents are presumed valid and that the burden of proving invalidity always rests with the party asserting as such, the accused infringes. Canon Camp. Sys., Inc. v. Nu-Kote Int'l, Inc., 134 F.3d 1085, 1088 (Fed. Cir. 1998). Accordingly, as we have explained:

> It is true that [plaintiff] Canon carries the burden of establishing a likelihood of success on the validity issue and thus must show that Nu-Kote will not likely prove that the patent is invalid. [Citations omitted] However, a patent is presumed valid, and this presumption exists at every stage of the litigation. [Citations omitted] Ultimately, at trial on the merits, Canon need only submit sufficient evidence to rebut any proof of invalidity offered by [accused infringes] Nu-Kote.Thus, where the challenger fails to identify any persuasive evidence of invalidity, the very-existence of the patent satisfies the patentee's burden on the validity issue.

Id. (emphasis added). Thus, because Premier -- the party with the ultimate burden of proving invalidity -- has not identified

a single prior art reference that might diminish an otherwise unchallenged "clear showing" of patent validity, the presumption of irreparable harm likewise remains undiminished as to version 2.0 of the Interactive Network.

In addition, the two asserted grounds for Premier's invalidity attack hardly amount to the requisite "persuasive evidence of invalidity." Rather, Premier appears to have plucked these twin rationales from Amazon-com, Inc., where we said that a patentee (not an accused infringer) could perhaps rebuff a challenge to validity at the preliminary injunction stage by, "for example, showing that the patent in suit had successfully withstood previous validity challenges" or the relevant industry had long acquiesced in the patent's validity. 239 F.3d at 1359. But the converse does not seem equally true. Otherwise, an accused infringer could undermine the "clear showing" needed to trigger the presumption simply because of the fortuity of litigation and the timing of the Patent and Trademark office, without any reliance at all on prior art or other more common attacks on validity. Without expressing any opinion about whether these asserted grounds could be relevant in a different case, we reject Premier's strained contention here.

B

Next, Premier asserts that it has rebutted the presumption of irreparable harm even if that presumption does apply here. Specifically, Premier notes that Advanced waited 12 months from the time the '908 patent issued to sue Advanced in federal court and seek a preliminary injunction, thereby undercutting the notion that Advanced needs emergency relief to prevent irreparable harm. (Appellant's Br. at 59.) Citing High Tech. Med. Instr., Inc. v. New Image Indus., Inc.,49 F.3d 1551 (Fed. Cir. 1995), Premier asserts that, in addition, Advanced also "repeatedly" offered to license the '908 patent to Premier during the parties' pre-service negotiations. Thus,

goes the reasoning, Advanced plainly showed itself willing to accept money damages in lieu of whatever emergency injunctive relief it now seeks.

This chorus of arguments has a much more plausible ring and further adds to the conclusion that Advanced merits no preliminary injunction as to versions 1.0 and 3.0 of the accused Interactive Network. But again, these arguments simply fall short of rendering the district court's conclusion of an abuse of discretion as to version 2.0. After all, delay -- the first cited ground for rebutting the presumption -- constitutes but a single factor in the irreparable-harm balancing inquiry. See, e.g, High Tech. Med., 49 F.3d at 1557 (noting that "the period of delay may not have been enough, standing alone, to demonstrate the absence of irreparable harm"). Moreover, we excuse delayed requests for Rule 65 relief when, as in this case, the movant has offered a "good explanation" for that delay. Id. Here, Advanced has two: the ongoing delay cultivated by Premier's on-again, off-again discussions with Advanced about whether the parties would settle the matter; and the fact that Advanced only learned for certain of the Interactive Network's alleged infringement in May 2001, a month before Advanced filed suit and only three-and-half months before its complaint was served.

The licensing argument is also persuasive; but again, it simply does not do enough, either by itself or coupled with the "delay" argument, to overcome the presumption of irreparable harm. In High Tech. Med., by contrast, the court found the presumption rebutted when the trial court erroneously determined that the accused dental-camera device could be physically altered so as to fall within the scope of the asserted patent claims. 49 F.3d at 1555-56. Accordingly, upon vacating the district court's likelihood-of-infringement analysis, we also vitiated its finding that a presumption of irreparable harm applied. Id. at 1556. Further, we reasoned, the patentee did not actually practice or commercially exploit his invention, meaning he would suffer no loss of goodwill or lost sales if no preliminary injunction issued. Id. at 1556-57. And the patentee expressed a willingness to license the patent, not to mention that he had waited "almost 17 months after the issuance of the re-examination certificate" before suing the accused infringes. Id. at 1557. The totality of these circumstances, along with the absence of any showing that money damages could not alone remedy the patentee's harm, renders the district court's conclusion of irreparable harm an abuse. Id.

In this case, on the other hand, we have found no reversible error with the district court's infringement and likelihood-of-success analysis as to version 2.0, meaning the presumption still holds for that particular device. Contrast Id. at 1556. Also, unlike the patentee in High Tech. Med., Advanced markets and commercially exploits its patented invention; and thus, it would indeed risk losing sales and market share, among other economic harms, should no preliminary injunction issue. Contrast 49 F.3d at 1556-57. And the more accurate gauge of the delay here is three or four months, not the "12 months" that Premier emphasizes. Thus, this argument is also unavailing.

C

Finally, Premier also contests the district court's balancing of the harms. In so doing, Premier asserts that a preliminary injunction will effectively put it out of business and will "probably" force it to lay off all 150 of its employees. (Appellee's Br. at 61.) In defense of the district court's analysis, Advanced counters that this going-out-of-business assertion is inconsistent with the inference that no one at Premier thought enough of the pending complaint as to even timely respond to it. And one would expect, adds Advanced, that a party facing extinction via a lawsuit would aggressively defend against that suit, let alone timely answer it. (Appellee's Br. at 61.)

This factor again solidifies the contrary results for the Interactive Network versions 1.0 and 3.0 on the one hand and version 2.0 on the other. As to versions 1.0 and 3.0, we cannot discount Premier's sworn assertions that a preliminary injunction could well cause the company to dissolve (see J.A. 445), a relevant consideration. See Bell & Howell Doc. Mgmt. Prods. Co. v. Altek Sys., 132 F.3d 701, 708 (Fed. Cir. 1997). As to version 2.0, the district court did not abuse its discretion because, in addition to the presumption of irreparable harm, Advanced also has allegedly lost other business opportunities with other large potential buyers, including Wal-Mart and Kmart. (See J.A. 445.) Further, as the presumption of irreparable harm implicitly recognizes, the patentee Advanced will continue to lose business opportunities unless the putative infringement immediately ceases. And of course, a court ought not reward a business built on an infringing product by allowing that infringement to continue in the face of a proper application for preliminary relief. Given the presumption, Advanced's lost business, goodwill and sales opportunities and the possibility that Premier has already benefited at Advanced's expense, the court had sufficient reasons to find in Advanced's favor here

as well. At the very least, its finding does not rise to the level of clear error.

VI

For the reasons stated above, we reverse the district court's entry of a partial default judgment and the preliminary injunction insofar as it would enjoin versions 1.0 and 3.0 of the accused Interactive Network. We affirm the preliminary injunction as to version 2.0 of the accused Interactive Network.

COSTS

Each party will bear its own costs.

QUESTIONS AND ANSWERS ABOUT PETITIONS FOR REHEARING AND SUGGESTIONS FOR HEARING OR REHEARING IN BANC IN THE UNITED STATES COURT OP APPEALS FOR THE FEDERAL CIRCUIT

Q. *When is a petition for rehearing appropriate?*

A. Petitions for rehearing are rarely considered meritorious. Consequently, it is easiest to first answer when a petition for rehearing is not appropriate. A petition for rehearing should not be used to reargue matters already briefed and orally argued. If you failed to persuade the court then, you do not get a second chance. This is especially so when the court has entered a judgment of affirmance without opinion under Fed. Cir. R. 36, as a disposition of this nature is used only when the appellant has utterly failed to raise any issues in the appeal that require an opinion to be written in support of the court's initiated judgment of affirmance.

Thus as a usual prerequisite, the court must have filed an opinion In support of its judgment for a petition for rehearing to be appropriate. In addition, counsel seeking rehearing by the panel must be able to identify in the court's opinion a material error of fact or law the correction of which would require a different judgment on appeal.

Q. *When is a suggestion for rehearing in banc appropriate?*

A. In-banc decisions are extraordinary occurrences. Consequently, to answer this question, one must first understand the respective roles of a three-judge merits panel of the court and the court In banc. The responsibility of a merits panel is to decide individual appeals 'according to the law of the circuit as established in the court's precedential

opinions. While each merits panel is empowered to enter precadential opinions, the ultimate responsibility of the court in banc is to set forth the law of the circuit which merits panels are obliged to follow.

Thus, as a usual prerequisite, a merits panel of the court must have entered a precedential opinion in support of its judgment for a suggestion for rehearing in banc to be appropriate. In addition, the party seeking rehearing in banc must show that ether the merits panel has failed to follow identifiable decisions of the Supreme Court of the United States or precadential opinions of the circuit or the merits panel has followed circuit precedent which the party seeks to have overruled by the court in banc.

Q. *How frequently are petitions for rehearing granted by merits panels or suggestions for rehearing banc accepted by the court in banc?*

A. The data about petitions f or rehearing since 1982 show that merits panels granted some relief in only 3 percent of the more than 1900 petitions filed. The relief granted usually involved only minor corrections of factual misstatements, rarely resulting in a change of outcome in the decision. In-banc suggestions were accepted less frequently, only 16 of more than 1100 times.

Historically, the court itself In-banc review in more than half (21 of 37) of the very few appeals decided in banc since 1982. This sua sponte, in banc review is a by product of the court's practice of circulating every precedential panel decision to all of the edges before it is published. No count is kept of sua sponte, in banc polls that fail to carry, but one of the reason that virtually all of the more than 1100 suggestions made by the parties since 1982 have been declined is that the court itself has already impliedly

"cleared" the precedential opinions before they are filed by merits panels.

Q. *Is it necessary to have filed either a petition for rehearing or a suggestion for rehearing in banc before filing a petition for certiorari in the Supreme Court of the United States?*

A. No. All that is needed is a final judgment in the court of appeals.

As a matter of interest, very few petitions for certiorari from Federal Circuit decisions are granted. Since 1982, the Supreme Court has granted certiorari in only 31 appeals heard in the Federal Circuit suit. Almost 1000 petitions for certiorari have been filed in that period.

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

Civil No. 01-983(DSD/JMM)

Advanced Communication
Design, Inc.,

Plaintiff,

ORDER

Premier Retail Networks,
Inc.,

Defendant.

John B. Lunseth II, Esq., Gerald F. Helget, Esq. and Briggs & Morgan, 2400 IDS Center, 80 South Eighth Street, Minneapolis, MN 55402, counsel for plaintiff.

James A. DiBoise, Esq., David J. Berger Esq., Tracy T. Lane, Esq. ,Ian D. Chawdbury, Esq. and Wilson, Sonsini, Goodrich & Rosata, 650 Page Mall Road, Palo Alto, CA 94304 and David P. Pearson, Esq., Winthrop & Weinstine, 3200 Minnesota World Trade Center, 30 East 7th Street, St. Paul, MN 55101, counsel for defendant.

This matter is before the court on plaintiff's motion for a partial default judgment, plaintiff's motion for a preliminary injunction, defendant's motion for relief from default, defendant's motion for leave to file an answer and counterclaim and plaintiff's motion to strike defendant's answer and counterclaim. Based upon a review of the file, record and proceedings herein, and for the reasons stated, the court grants plaintiff's motion for partial default judgment, grants plaintiff's motion for a preliminary injunction, denies defendant's motion for relief from default, denies defendant's

motion for leave to file an answer and counterclaim and grants plaintiff's motion to strike defendant's answer and counterclaim.

BACKGROUND

Plaintiff Advanced Design Communication, Inc. ("Advanced") is the owner of United States Patent No. 6,133,908 ("the '908 patent" or "patent '908"). Advanced manufactures, advertises and sells the technology arid apparatus set forth in '908 patent ("A/V Preview Apparatus") to various retailers. Advanced's A/V Preview Apparatus is designed to permit a number of consumers simultaneously preview samples of different video or audio discs. A retail consumer who is interested in purchasing a certain audio/visual product (e.g., a movie, cassette, music video, compact disc or video game) can remove the product from the retailer's display shelf, scan the bar code on the product into the A/V Preview Apparatus and watch and listen to samples of the audio/visual retail product on the A/V Preview Apparatus. (Scibora Af f . at ¶6.)

Advanced alleges that defendant Premier Retail Networks, Inc. ("Premier") has produced a product, known as the "Interactive Network," that infringes upon claim 1 of the '908 patent. On February 15, 2001, Advanced' s CEO Marco Scibora sent a letter to Charles Nooney, then Premier's President, advising him that Premier as infringing upon the '908 patent. (Scibora Supp. Aff. at ¶ 4.) On March 7, 2001, Jeffrey Cohen, then Premier's Chief Executive Officer, called Scibora to talk about the letter. (Scibora Supp. Aff. at ¶5). Cohen and Scibora discussed resolving the dispute without litigation. On April 9, 2001, representatives of Premier and Advanced held a telephone conference so that Advanced could learn more about Premier's product. Sean Moran and Paul Davis, of the Wilson Sonsini law firm, represented Premier.

On April 12, 2001, Scibora met with Cohen and Moran to discuss potential business resolution of the dispute. (Scibora Supp. Aff. At ¶17.) Advanced alleges that Scibora told Cohen that he would consider an agreement releasing Premier from any claims of infringement if, and only if, Premier and Advanced were able to reach a "viable and beneficial business resolution." Advanced asserts that Scibora and Cohen shook hands upon that understanding (Id.), while Premier contends that the parties shook hands upon Cohen's promise to refrain from suing Premier on the '908 patent (Cohen Aff. at ¶ 3; Moran Aff. at ¶ 6)

On April 20, 2001, Gerald E. Helget and Nelson R. Capes, as patent counsel for Advanced, together with Scibora, telephoned Moran and Davis, Premier's attorney, to determine the structure and function of Premier's Interactive Network. (Helget Aff., ¶2; Scibora Aff., ¶ 11.) From this telephone conversation Advanced determined that Premier's Interactive Network infringed upon claim 1 of the '908 patent.

On May 3, 2001, Helget, representing Advanced, delivered a letter to Davis that provided a written description of Premier's alleged infringement and that offered to resolve the dispute amicably. Neither Advanced nor Helget received a response to the letter. (Helget Aff. ¶ 6-7.) Helget subsequently called Davis but Davis never returned Helget's telephone call. On June 21, 2001, Michael M. Lafeber, an attorney for Advanced, wrote a letter to Davis requesting a response to the May 3, 2001 letter. Neither Davis nor anyone from Premier responded to Lafeber's letter. (Lafeber Aff. at ¶ 8.)

Previously, on June 1., 2001., counsel for Advanced filed but did not serve a complaint with the United States District Court for the District of Minnesota alleging that Premier infringed upon the '908 patent. Art Songey, Premier's Chief Financial officer, received notice of the filing from a law firm solicitation letter dated June 12, 2001.

(Lunseth Aff., Ex. C, Songey Dep. at 18) August 7, 2001, Scibora wrote a letter to Cohen advising him that Advanced had filed a complaint and that Premier' s attorney had not responded to communication from Advanced's counsel. (Scibora Supp . Aff. at ¶26; see Scibora Supp. Aff., Ex. H.) Scibora notified Cohen that Advanced would proceed with the litigation if Premier did not respond by August 16, 2001. (Id.) Premier was served with the summons and complaint on August 21, 2001. Premier failed to submit an answer or otherwise defend or appear in this action by the time required under Rule 12 of the Federal Rules of Civil Procedure. On September 25, 2001, Advanced's attorneys contacted attorney Davis at Wilson Sonsini to inquire whether Premier would file an answer and told Davis that the answer was overdue.(Lafeber Aff. at ¶6.) Davis stated that he knew that the complaint had been filed but did not say whether Premier would respond. (Id.)

Advanced subsequently applied to the district court clerk for in entry of default pursuant to Fed. R. Civ. P. 55 (a), which was entered on September 26, 2001. (Id. at ¶7.) Advanced now moves for default judgment, for a preliminary injunction, and to answer and counterclaim. Premier moves for relief from default and for leave to file an answer and counterclaim. The court grants plaintiff's motion for partial default judgment, grants plaintiff's motion for a preliminary injunction, denies defendant's motion for relief from default, denies defendant's motion for leave to file an answer and counterclaim and grants plaintiff's motion to strike defendant's answer and counterclaim.

DISCUSSION

I. Default Judgment

Defendant requests that the court set aside the entry of default pursuant to Federal Rule of Civil Procedure 55(c), while plaintiff requests that the court enter default judgment pursuant to Federal Rule of Civil Procedure 55 (b) (2) . The court denies defendant's motion and grants plaintiff's motion.

A. Defendant's Rule 55 (c) Motion for Relief from Entry of Default.

While courts generally disfavor the entry of default, defaults serve important public policy interests:

> Both the default entry and judgment. play an important, role in the maintenance of an orderly, efficient judicial system. They are significant weapons for enforcing compliance with the rules of procedure and therefore facilitate the speedy determination of litigation. The default procedure offers a remedy to a good faith litigant who is confronted by an obstructionist, adversary... [I]f default is to be an effective sanction, relief under Rule 55(c) cannot be granted too readily.

Wright, Miller and Kane, Federal Practice and Procedure, 2693 (West Group 1998); see also Gray v. John Jovino Co., 84 F.R.D. 46, 47 (E. D. Tenn. 1979) The court has discretion in granting a motion for relief from entry of default. See Wright, Miller, and Kane, Federal Practice and Procedure at §2693.

Federal Rule of Civil Procedure 55(c) provides that a court may grant relief from entry of default for "good cause

shown." The principle factors in determining whether to grant relief from entry of default under the "good cause" standard include (1) whether the default was the result of defendant's culpable conduct, (2) whether plaintiff would be prejudiced if the default is set aside and (3) whether defendant presented a meritorious defense. In re Dierschke, 975 F.2d 181, 183 (5th Cir. 1992) ; Farnese v. Bagnasco, 687 F.2d 761,764 (3d Cir. 1982); Porter v. Brancato, 171 F.R.D. 303, 304 (D. Kan. 1997); Hunt v. Klieg Motor Co., 841 F. Supp. 1098, 1105-06 (D. Kan. 1993). The court need not consider all three factors. Porter, 841 F.R.D. at 304. If the default is the result of defendant's culpable conduct, then the district court may refuse to set aside the default on that basis alone. See, e.g., id.; In re Dierschke, 957F.2d at 184; Alan Neuman Prods., Inc. v.Albright, 862 F. 2d 1388, 1392 (9th Cir. 1988).

Courts consistently deny relief from a default when the default results from the defendant's willful, intentional conduct. See, e.g., Porter, 171 F.R.D. at 304 (denying relief from default because of defendant's culpable conduct) ; Hunt v. KIing Motor Co., 841 F. Supp. 1098, 1-106 (D. Kan. 1993) (denying relief from default, emphasizing that "[i]f the default was the result of culpable conduct on the part of the defendant, the court need not consider anything else in refusing to set aside the default judgment."); Bentley v. Raveh, 151 F.R.D. 515, 519 (D. Conn. 1993) (denying relief from default because defendant "deliberately and brazenly ignored" the litigation.); Standard Chartered Bank v. Red Rock Commodities LTD, 151 F.R.D. 261, 262 (S.D.N.Y. 1993) (denying relief from default where defendant's actions were willful); Clee v. Remillard Building, Inc., 649 F. Supp. 1127, 1130 (D. Conn. 1986) (denying relief from default where corporation's president offered no reason for delay after being served and where he was given opportunity but failed to oppose the entry of default); Admiral Home Appliances v. Tenavision, Inc., 585 F. Supp. 14, 16 (D.N.J. 1982) (denying relief from entry of default where defendant

corporation was on full notice of service of summons and complaint and it's failure to submit papers to attorneys for timely reply was result of arrogance and disregard for potential consequences); Paramount Packaging Corp. v. H.B. Fuller Co., 190 F. Supp. 178, 180 (E.D. Pa. 1960) (denying relief from entry of default and holding that "[a] defendant who chooses to ignore a purported service of process does so at his own risk."); Draisner v. Liss Realty Co., 211 F.2d 808, 808-09 (D.C. Cir. 1954) (denying relief from entry of default because of defendant's willful conduct).

Here, Premier's conduct establishes a pattern of willfully ignoring communication from Advanced regarding Premier's alleged infringement of the '908 patent. Premier clearly knew that Advanced had filed the summons and complaint. Premier was personally served with the summons and complaint on August 21, 2001. (See Lafeber Aff., Ex. C.) Author Songey Financial Officer, accepted service of the complaint. (Lunseth Aff., Ex. C., Songey Dep. at 36-37.) Songey sent a copy of the summons and complaint to Premier's counsel at the Wilson Sonsini law firm (Id.) and to Cohen, who was still Premier's Chairman of the Board (Lunseth Aff., Ex. D at 58) Yet, Premier did not respond to the complaint.

Moreover, on September 25, 2001, after Premier failed to file n answer, Lafeber, plaintiff's attorney, called Davis, defendant's attorney, to advise him that the answer was overdue. (Lafeber Aff., Ex. C at ¶6. Davis admitted that he knew about the complaint, was aware that it had been served on Premier, but would not state whether. Premier would be responding. (Id.) Thus, because both Premier and Premier's attorney clearly knew about the complaint but failed to file a timely answer, the count concludes that Premier's failure to file an answer constitutes intentional conduct.

Premier contends that it did not file a timely answer because of Cohen' s unexpected and disruptive departure

from Premier. Essentially, Premier explains that Advanced's complaint simply "slipped through the cracks" because of Cohen's sudden departure. The record, however, does not support Premier's explanation.[1] Even assuming that the explanation is true, it does not constitute good cause and thus relieve Premier of its obligation to defend the litigation. See, e.g., Heaton v. Bonacker & Leigh, 173 F.R.D. 533, 535 (M. D. Ala.1997) ("It is not enough to argue that a mail clerk misplaced the complaint, or to contend that the Postal Service lost the complaint.") (citations omitted); see also Florida Physician's Ins.Co. v. Ehlers, 8 F. 3d 780, 784 (11th Cir. 1993) ("The 'failure [of a company] to establish minimum procedural safeguards for determining that action in response to a summons and complaint is being taken does not constitute default through excusable neglect.'") (quoting Gibbs v. Air Canada, 810 F.2d 1529, 1.537 (11th Cir. 1987)); Baez v. S.S. Kresge, Co., 518 F .2d 349, 350 (5th Cir. 1975) (denying relief from default judgment and emphasizing that " minimal internal procedural safeguards could and should have been established which would have prevented [the loss of motion papers when sent to defendant's attorney].) "As the district court stated in Heaton, "organizations must have systems "'for checking up on process to see that it has in fact reached its destination and that action is being taken.'" Heaton, 173 F.R.D. at 153 (quoting Gibbs, 810 F.2d at 1537). Because the court finds that

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[1] Cohen was not unexpectedly removed from Premier, as Premier asserts. In fact, Cohen was still a member of Premier's Board of Directors when this motion came before the court.(Lunseth Aff., Ex. B, Nooney Dep. at p.58.) Moreover, Cohen's removal as CEO of Premier was part of a negotiated private placement financing transaction in which Cohen received a substantial amount of money. (Lunseth Aff., Ex. B, Nooney Dep. at 29-30.)

Premier's default is the result of intentional conduct, Premier does not satisfy the "good cause" standard for relief under Federal Rule of Civil Procedure 55(c). The court therefore denies Premier's motion for relief from entry of default.[2]

B. Plaintiff' s Rule 55 (b) (2)Motion for Entry of Default Judgment

In the Eighth Circuit, the entry of default judgment is appropriate when a party's conduct includes "'willful violations of court rules, contumacious conduct, or intentional delays.'" Ackra Direct Mktg. Corp. v. Finqerhut Corp., 86 F. 3d 852, 855 (8th Cir. 1996) (quoting United States v. Harre, 983 F.2d 128, 130 (8'" Cir. 1993); see Taylor v. City of Ballwin, 859 F.2d 1330, 1332 (8"' Cir.1988) (quoting E.F. Hutton & Co. v. Moffat, 460 F.2d 284, 285 (5th Cir. 1972)); Inman v. American HomeFurnature Placement, 120 F.3d 117, 119 (8th Cir. 1997). Default judgment is not an appropriate sanct ion for a "'marginal failure to comply with time requirements Ackra, 86 F. 3d at 8 5 5 (quoting Harre, 98 3 F. 2d at 130). Because the court concludes that defendant engaged in contumacious conduct, the court grants plaintiff's motion for partial default judgment.[3]

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[2] The court need not consider whether Premier has a meritorious defense or whether Advanced would suffer prejudice if the court granted relief from default because the court finds that Premier engaged in culpable conduct. Neuman, 862 F.2d at 1391; Porter, 171 F.R.D. at 304. The court, however, notes that even if the court were to consider those two factors, the court still would have denied Premier's motion for relief from default because the balance would tilt in Advanced's favor.

[3] The court notes that "a default judgment on well-pleaded allegations establishes only defendant's liability; plaintiff must still establish the extent of damages." Kelley v. Carr, 567 F. Supp. 831, 841 (W.D. Mich. 1983); see Antoine v.

While the Eighth Circuit "has not articulated specific factors that must be considered in determining whether a Rule 55(b) motion for default judgment for failure to defend should be granted," Ackra, 86 F.3d at 857, the Ninth Circuit has offered several factors that the court finds instructive. In Alan Neuman Prods., Inc. v. Albright, the Ninth Circuit stated that a default judgment will be upheld if (1) the defendant's culpable conduct led to the default, (2) the defendant has no meritorious defense or (3) the plaintiff would be prejudiced if the judgment were set aside. 862 F.2d at 1391. The court further held that the court need not consider whether defendant established a meritorious defense or whether plaintiff would suffer prejudice if the judgment were set aside when the defendeant engaged in culpable conduct. Alan Neuman, 862 F.2d at 1391. The court explained that a "defendant's conduct is culpable if he has received actual or constructive notice of the filing of the action and intentionally failed to answer." Id.

In Alan Neuman Prods., Inc., plaintiff's attorney filed a complaint on behalf of plaintiff and attempted to serve defendant personally. Id. at 1390. Defendant advised his attorneys that service was attempted and those attorneys hired another law firm to check the docket for a return of service entry. Id. Plaintiff's attorneys wrote to defendant confirming to him that he had been personally served and told defendant that would file for an entry of default if he did not answer the complaint. Id. After a default was entered, the district court denied defendant's motion to set aside the default. Id. at 1392. The Ninth Circuit affirmed concluding that it was not

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Atlas Turner Inc., 66 F. 3d 105, 110 (6th Cir. 1995) ("'Where damages are unliquidated a default admits only defendant's liability and the amount of damages must be proved.'") (quoting Fehlhaber v. Fehlhaber, 681 F.2d 1015, 1026 (5th Cir. 1982) . Thus, the court grants plaintiff's motion for default judgment on defendant's liability only.

clearlyerroneous for the district court to find that defendant's intentional failure to appear and to answer the complaint constituted culpable conduct. Id. As evidence of culpable conduct, the court emphasized that the defendant's attorneys monitored the court docket and that plaintiff's attorneys corresponded with defendant about the complaint.

Similar to the defendant in Alan Neuman Prods., Inc., and as discussed above, Premier and Premier' s attorney certainly knew that Advanced filed the complaint in this action and Advanced's attorney contacted Premier, about the complaint and Premier's failure to file a timely answer. Thus, as in Alan Neuman Prods., Inc., Premier's conduct was contumacious because Premier and Premier's attorneys had actual notice of the complaint, Advanced's attorney communicated to Premier's attorney regarding the complaint and Premier nevertheless failed to file an answer. Because Premier's actions clearly constituted culpable conduct, entry of default judgment is appropriate.[4]

II. Advanced' s Motion to Strike Premier's Answer

Advanced also moves to strike defendant's answer and counterclaim. Premier does not oppose this motion, conceding that " it violated technical pleading rules by filing a late answer." (Def.'s Opp'n Mot. Default J. at 8 n.4). The court therefore grants Advanced's motion to strike defendant's answer and counterclaim.

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[4] As discussed, because the court finds culpable conduct, the court need not consider whether Premier has a meritorious defense or whether Advanced would suffer prejudice if the judgment were set aside. Neuman, 862 F. 2d at 1391; Porter, 171 F.R.D. at 304.

III. Premier's Motion for Leave to File Answer and Counterclaim

Because the count grants Advanced's motion for entry of default judgment, Premier's motion for leave to file an answer arid counterclaim is moot. The court therefore denies that motion as moot.

IV. Advanced's Motion for A Preliminary Injunction

Finally, Advanced brings a motion for a preliminary injunction until Advanced is able to establish its monetary damages. The grant or denial of a preliminary injunction is within the discretion of the district court. Amazon.com. Inc. V. Barnesandnoble.com, Inc., 239 F. 3d 1343, 1350 (Fed. Cir. 2001). As the moving party, Advanced is entitled to a preliminary injunction fit can succeed in showing (1) a reasonable likelihood of success on the merits, (2) irreparable harm if an injunction is not granted, (3) a balance of hardships tipping in its favor and (4) the injunction's favorable impact on the public interest. See, e.g., id.; Purdue Pharma L.P. v. Boehringer. Trigelheim GmbH, 237 F.3d at 1359, 1363 (Fed. Cir. 2001). None of these factors is dispositive. Amazon.com Inc. v. Barnesandnoble.com Inc., 239 F.3d at 1350. Rather, the court weighs each factor against the other's and against the form and magnitude of the relief sought. Id. (quoting Hybritech, Inc. v. Abbott Labs., 849 F.2d 1446, 1451 (Fed. Cir. 1988)). Based on an analysis of all four factors, the court grants plaintiff's motion for a preliminary injunction.

A. Likelihood of Success on the Merits

To establish the likelihood of success on the merits, Advanced must show that, in light of the presumptions and burdens that will inhere at a trial on the merits, (1) Advanced's infringement claim will likely withstand Premier's challenges to the validity and the enforceability of the patent and (2) Advanced will likely prove that defendant

infringes upon its patent. Vehicular Tech. Corp., 141 F.3d at 1088. Advanced has satisfied this burden.

a. Advanced has a Valid Patent

35 U.S.C. § 282 states that a "patent is presumed valid" and that "the burden of establishing invalidity of a patent or any claim thereof shall rest on the party asserting such invalidity." The presumption of validity exists at every stage of the litigation. Canon Computer Sys., Inc. v. Nu-Kote Int'l, Inc.,134 F.3d 1085, 1088 (Fed. Cir. 1998) . " [W] here the challenger fails to identify any persuasive evidence of invalidity, the very existence of the patent satisfies the patentee's burden on the validity issue." Id. Here, Premier has not provided clear and convincing evidence of the invalidity of the '908 patent. The patent is therefore presumed valid.

b. Infringement

On a motion for entry of default judgment, allegations of fact in the complaint are taken as true unless they are contradictory on the document's face. Kelley, 567 F. Supp. at 840. Because the court entered default judgment, Premier is deemed to have admitted each and every factual allegation of infringement set out in the complaint. Thus, through the default judgment, Advanced has established infringement.

Even aside from the default judgment, Advanced has provided sufficient evidence of infringement. A product infringes upon a patent if it contains every limitation of any one claim or an equivalent of each limitation not literally met. Dolly, Inc. v.Spaulding & Evenflo Cos., Inc., 16 F.3d 394, 397 (Fed. Cir. 1994); Becton Dickinson & Co. v. C. R. Bard, Inc., 922 F. 2d 792, 796 (Fed. Cir. 1990). An infringement analysis requires two steps. The first is to construe the meaning and the scope of the patent claims, a step commonly referred to as claim construction. Southwall Tech. Inc. v. Cardinal IG Co., 54 F. 3d 1570, 1575 (Fed. Cir. 1995). The

second is to determine whether the accused invention infringes upon the patent claim as construed. Markan v. Westview Instruments, Inc., 52 F.3d 967, 976 (Fed. Cir. 1995). While the first stop is solely a question of law to be determined by the court, the second step is one for the trier of fact. Purdue, 237 F.3d at 1363; Cybor v. Inc., 138 F.3d 1448, 1454 (Fed. Cir. 1998) (en banc)

(1) Claim Construction of the '908 Patent

Claim construction involves ascertaining the true meaning and scope of each claim as a matter of law. See Markman v. Westview Instruments, Inc., 517 U.S. 370, 386 (1996). In determining the meaning of the terms of a claim, the court considers "intrinsic" evidence, which consists of the language of the claims, the specification of the patent and the prosecution history. See Vitronics Corp. v. Conceptronic, Inc., 90 F.3d 1576, 1582 (Fed. Cir. 1996). If the meaning of the claim terms is not ambiguous and can be determined from the intrinsic evidence, the court need not rely on extrinsic evidence in rendering its claim construction. See Id. at 1583. Courts should give the words of a claim their ordinary and accustomed meaning, unless it appears that the inventor used them differently. See ZMI Corp. V. Cardiac Resuscitator Corp., 844 F. 2d 1576, 1579 (Fed. Cir. 1988).

Here, the parties contest whether Premier infringes upon claim 1 of the '908 patent. Claim 1 of the '908 Patent reads as follows:

1. A multi-station video/audio distribution apparatus that allows a plurality of users Lo simultaneously sample different video material and audio material, comprising:

(a) at least two preview stations, said at least two preview stations each having a user input, an audio output

such that an analog audio signal corresponding to said user input may be heard, and a video display such that video material corresponding to said user input may be seen;

(b) data control means, said data control means for retrieving digitized video material corresponding to each of said user inputs;

(c) preview station interface means, said preview station interface means separate from and directly connected to said data control means and said at least two preview stations by non-switched connections not involving a local area network or wide area network, said preview station interface means for transferring each of said user inputs from its respective preview station to aid data control means, for receiving each of said digitized audio material corresponding to each of said user inputs, for converting each of said digitized audio materials to said analog audio signal and for transferring each of said analog audio signal to its respective preview station; and

(d) video display interface means, said video display interface means separate from and directly connected to said control means and said video display by connections not involving a local area network or wide area network, said video display interface means for receiving each of said digitized video materials corresponding to each of said user inputs, for converting each of said digitized video materials to a format acceptable to said video display, and for transferring said formatted video materials to said video display.

(Helget Aff., Ex. A, Col. 8, Ins. 14-48.) The parties dispute the construction of particular terms in elements (b), (c) and (d) of the '908 Patent. These terms therefore require construction.

(a) Element (b) of the '908 patent

The dispute the term "data control means" in element (b) of the '908 Both parties agree that the "data control means" is in a means-plus-function format. (See Def. Opp. Mot. Prelim. Injun. at 13; P's Reply Mem. Supp. Mot. Prelim. Injun. at 3) Whether a claim limitation is in means-plus-function format is a matter of claim construction and is thus a question of law. See Kemco Sales, Inc. v. Control Papers Co., Inc., 208 F. 3d 1352, 1360 (Fed. Cir. 2000). Title 35 § 112, ¶ 6 [5]provides that a patentee may define the structure for performing a particular function generically through the use of a means expression, provided however that it discloses specific structure corresponding to that means in the patent specification. See 35 U.S.C. § 112, 91 6;5 see also Valmont Indus., Inc. v. Reinke Mfq. Co., Inc., 983 F.2d 1039, 1042 (Fed. Cir. 1993) (explaining that the patent applicant must describe in the specification some structure which performs the specified function recited in the claim limitation). The Federal Circuit has referred to § 112, ¶ 6 as embodying a statutory "quid pro quo" since the duty to link or associate structure to function is exchanged for the convenience of utilizing § 112, ¶ 6; see Kemco, 208 f. 3d at 1360; B. Braun Medical., Inc. v. Abbott Labs., 124 F.3d 1419, 1424 (Fed. Cir. 1997).

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[5] Section 112, T 6 specifically provides : An element in a claim for a combination may be expressed as a means or step for performing a specified function without the recital of structure, material, or acts in support thereof, and such claim shall be construed to cover the corresponding structure, material, or acts described in the specification and equivalents thereof. 35 U.S.C. § 112 (2000).

Once a court establishes that a means-plus-function limitation is at issue, it must construe that limitation to determine what the function is arid what structure is disclosed in the written specification that corresponds to the "means" for performing that function. Kemco, 208 F.3d at 1360; Chiuminatta Concrete Concepts Inc. v. Cardinal Indus., Inc., 145 F.3d 1303, 1308 (Fed. Cir. 1998) (after establishing that a means-plus-function limitation is at issue, the district court must construe the function recited and determine what structure has been disclosed in the specification that corresponds for performing that function); Odetics, Inc. v. Storage Tech. Corp., 185 F. 3d 1259, 1264 (Fed. Cir. 1999) (claim limitations written as means-plus-function limitations pursuant to 35 U.S.C. § 112, Paragraph 6 must be construed to cover the structure described in the patent specification for accomplishing the recited function and any equivalents thereof). A court, however, may not import functional limitations that are not recited in the claim or structural limitations from the written description that are unnecessary to perform the claimed function.

Coating Mach. Sys., Inc., 239 F.3d 1225, 1233 (Fed. Cir. 2001). Use of the term "means" in a claim limitation creates a presumption that § 112, Paragraph 6 has been invoked, but that presumption may be, rebutted if the properly construed claim limitation itself recites sufficiently definite structure to perform the claimed function. See Kemco, 208 F.3d at 1360-61. Conversely, absence of the word "means" creates a presumption that § 112, 91 6 has not been invoked, but that presumption may likewise be rebutted if the claim limitation is determined not to recite sufficiently definite structure to perform the claimed function. See Id. Because both parties agree that the term "data control means" is in a meansplus-function format and because the term uses the word "means," the court construes the term accordingly.

The proper construction of a means-plus-function claim includes all alternatives that perform the same function

with the same or equivalent structures. Carroll Touch, Inc. v. Electro Mechanical Sys., Inc., 27 USPQ2d 1836, 1840-41 (Fed. Cir. 1993) . Here, the language of the claim 1, element (b) makes clear that the function set forth in the claimed "data control means" is 'retrieving digitized audio and digitized video material." (Helget Aff., Ex. A, Col. 8, Ins. 24-25.) The structure set forth in the '908 patent specification for carrying out this function is provided at col. 3, line 64 to col. 4 line 17. The structure includes "file management utilities," and "data files stored on internal or external hard drives." (Helget Aff., Ex. A, Col. 4, 12-13.)

(b) Element (c) and (d)

(i) "directly connected"

The parties also contest the construction of "directly connected." Premier asserts that "directly connected" means "joined by a single wire without deviation." (Def. Opp. Mot. Prelim. Injun. at 11.) Advanced contends that Premier's reading of that term is too narrow. As discussed, there is a hierarchy to the evidence to be considered in claim construction: the claim language first, then the patent specification and finally the file history. Vitronics, 90 F. 3d at 1582-85. Based upon the claim's language, the specification and the prosecution history, the court construes the term "directly connected" to mean connected by non-switched connections not involving a local area network or wide area network.

The plain language of the claim supports this understanding of "directly connected." The relevant portion of element (c) reads: "preview station means, said preview station interface means separate from and directly connected to said data control means and said at least two preview stations by non-switched connections not involving a local area network or wide area network." (Helget Aff., Ex. A, Col. 8, lns. 25-31.) The patent language itself therefore defines the term "directly connected" to mean connected "by non-switched connections not involving a local area network or wide area network."

The specification also supports that definition of "directly connected." The specification language emphasizes that the, term is used to distin[g]uish the claim from an implementation which would use a pre[vi]ew station microcontroller to process the video data. The specification provides: "'The video display 80 does not transfer data or information through the preview station microcontroller 26 but rather is directly connected to a video display interface means 82 through a high gauge wire 83 having RC connectors at either end. " (Helget Aff., Ex. A, Col. 5, Ln. 65- Col 6 Ln 2.) The specification does not state that "directly connected" means only single wire, as Premier asserts. Such an understanding would erroneously read the Limitations of a particular embodiment into the claim language. Instead, the specification provides that "[t]he present invention may be embodied in other specific forms without departing from the spirit of the essential attributes thereof...." (HelgetAff., Ex. A, Col. Lns. 6-12.)

Moreover, the prosecution history supports the court's construction of "directly connected" and undermines Premier's construction. During prosecution, Advanced argued that "direct connections do not involve switching software and hardware like a local area network..." "directly connected" was added during prosecution, the words were added to distinguish this patent from a prior art that showed a LAN between the display device and the server. (Tolliver Decl., at 10, 12; K at 2-5.) The words were not added to narrow claim 1 to a single wire implementation.

(ii) Local Area Network

The parties further dispute the construction of the term "local area network." The court construes the term "local area network" to be a network involving switching hardware or software. The language of element (c) provides for "preview station interface means, said preview station interface means separate from and directly connected to said data control means and said at least two preview stations by non-switched connections not involving a local area network." (Helget Aff., Ex. A, Col. 8, Lns. 26-30.) From his language, it is clear that the '908 patent does not include a LAN and that claim 1 defines a LAN to be switched connections. The prosecution history further makes clear that"[a]ny local area network, by definition, is switched, not non-switched. (Tolliver Dec., Ex. K at 3.) It emphasizes that a local area network includes "switching hardware and software." (Tolliver Dec., at 3.) The fact that Premier does not favor a broad definition of LAN does not mean that Premier can construe the term more narrowly its own advantage. The language of the patent and the prosecution history are binding. The court therefore construes the ter[m] "local., area network" to involve- a network that switches hardware and software, a coast ruction that is consistent, with both the language arid the prosecution history.

(2) Infringement

After the claims are construed as a matter of law, the court must consider whether "a reasonable trier of fact could find that every limitation in any construed claim at issue" may be found in the accused devise. Unidynamics Corp. v. Automatic Products Int' Ltd., 157 F. 3d 1311, 1316-17 (Fed. Cir. 1998). Infringement of a claim occurs when every limitation recited in the claim appears in the accused devise. DeMarini Sports Inc. v. Worth, Inc., 239 F-3d 1314, 1331 (Fed. Cir. 2001) (quoting Amhil Enters Ltd, v. Wawa, Inc., 81 F. 3d 1554, 1562 (Fed. Cir. 1996)) ; Dolly, Inc., 16 F. 3d at 397 (an accused device must include every claim limitation of the claim). If just one limitation is missing or is not met as claimed, there is no infringement. London v. Carson Pirie Scott & Co., 946 F.2d 1534, 1539 (Fed. Cir. 1991); Mas-Hamilton Group v . La Gard, Inc., 156 F. 3d 1206, 1211 (Fed. Cir. 1998) .

The court concludes that Advanced has shown a likelihood of success on its infringement claim. Premier does not contest that the Interactive Network reads on Claim 1(a) of the '908 patent. The Interactive Network has at least two preview stations, each of which has a user input, an audio output such that an analog signal corresponding to the user input relay be heard and a video display such that material corresponding to the user input may be seen. (Helget Alf., Ex. B.)

Interactive Network also reads on claim 1(b) of the '908 patent. The Interactive Network has a server which performs the claimed "data-control-means." It retrieves digitized audio and digitized video signals using limited file information corresponding to product bar codes stored in the computer's memory. (Kyte Aff. at ¶ 6.) The server also has the identical structure of the claimed "data control means," namely a standard computer platform with micro-processor, random access memory, interfaces to various peripherals such as disk drives, operating system software, file management

utilities, application software and high-speed random access storage of audio and/or video material in digital form, contained in data files stored on internal or external hard drives. (Helget Aff., Ex. B.)

The Interactive Network reads on Claim 1(c) and (d) of the '908 patent. While Premier states that the Interactive Network does not read on Claim 1(c) and (d) because it is not "directly connected", the court finds Premier's argument unpersuasive, especially given the erroneously narrow construction Premier provides for the term "directly connected." Each version of Premier's Interactive Network is "directly connected" as the term is defined by the '908 patent and the prosecution history.

Moreover, while Premier states that the Interactive Network Version 1.0 and 3.0 do not read upon Claim 1(c) and (d) because each uses a LAN to make connections between the circuit board and preview station or television[6], Premier errs in it's narrow analysis of the term "LAN." The implementation included in Version 1.0 that Premier describes in the Kyte affidavit does not involve switching hardware and software and thus is not a LAN system.

Similary, while Premier asserts that audio files are delivered via LAN in Version 3.0, the court finds the assertion unpersuasive given Advanced's definition of the term LAN. Thus, the court concludes that Advanced has established a likelihood of success on the merits.

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[6] Premier never asserts that Version 2.0 uses a LAN. 27

B. Irreparable Harm

"[A] presumption of irreparable harm arises when a patentee makes a clear showing that a patent is valid and that it is infringed." High Tech. Med. Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551, 1556 (Fed. Cir. 1995)

Because Advanced has established that it has a valid and enforceable patent and that its patent has been infringed, Advanced is entitled to a presumption of irreparable harm. The fact that Advanced offered to enter into a licensing agreement with Premier does not rebut the presumption of irreparable harm. See Aero Indus., Inc. v. John Donovan Enterprises-Florida Inc., 80 F. Supp. 2d 963, 977 (S. D. Ind. 1999) (finding that the act of preliminary injunction entered into discussions with defendant about possible Licensing of the allegedly infringed patent did not rebut the presumption of irreparable harm).

C. Balance of Hardships

The balance of hardships favors Advanced. In this case, the economic harm posed to Advanced by the unlicensed production and sale of the Interactive Network is obvious and the court finds that any harm to defendant pales in comparison.

D. Public Policy

There is a strong public interest in protecting the rights secured by patents. Smith Int'l, Inc. v. Huqhes Tool Co., 718 F. 2d 1573, 1581 (Fed. Cir. 1983.) Thus, the public interest weighs in favor of granting a preliminary injunction in this case.

E. Bond

Under Federal Rule 65(c), the court is required to determine he amount of security that the preliminary injunction movant must give "for the payment of such costs and damages as may be incurred or suffered by any party who is found to have been wrongfully enjoined." The court concludes that a bond of $25,000 is appropriate in this case.

CONCLUSION

For the foregoing reasons, IT IS HEREBY ORDERED that:

1. Plaintiff's motion for partial default judgment [Docket No. 7] is granted;

2. Defendant's motion for relief from default [Docket No. 19] is denied;

3. Defendant's motion for leave to file an answer and counterclaim [Docket No. 19] is denied;

4.Plaintiff's motion to strike defendant's answer and counterclaim [Docket No. 13] is granted;

5. Plaintiff's motion for a preliminary injunction [Docket No. 7] is granted; and

6. Pursuant to Federal Rule 65(c), this injunction will not take effect until plaintiff posts a bond or provides other security in the amount of $25,000.

Dated: February 21, 2002

David S. Doty, Judge
United States District Court

John B. Lunseth II (65341)
Rider, Bennett, Egan & Arundel, LLP
333 South Seventh Street, Suite 2000
Minneapolis, MN 55402
(612) 340-7999
Attorney for: Advanced Communication Design, Inc.

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA - FOURTH DIVISION

Plaintiff(s): Advanced Communication Design, Inc.
Defendant(s): Premier Retail Networks, Inc.

Inv # 010460-01 * * Proof of Service *
*Case # 01-983 DSD/JMM

At the time of service I was at least 18 years of age and not a party to this action, and I served a copy of the:

SUMMONS IN A CIVIL CASE and COMPLAINT - JURY TRIAL DEMANDED

in the within action by personally delivering a true copy thereof as follows:

Witness	: Premier Retail Networks, Inc.
By serving	: Arthur Songey, Vice President
Address	: 201 Third Street, 7th Floor San Francisco, CA 94103
Date & Time	: August 21, 2001 at 3:45 pm
Witness fees	: Were not paid.

Person serving:
Chris Buchanan
Server
Metro Legal Services, Inc.
The Towle Building
330 2nd Avenue South, Suite 150
Minneapolis, MN 55401-2217
(800) 488-8994

Fee for service:
Registered California Process

Registration No.: 640
County: San Francisco
Expiration Date: 4/11/02

I declare under penalty of perjury under the laws of the States of America that the foregoing is true and correct.

Date: August 21, 2001

Signature:
s/

***

bringing here and setting aside what you did in connection with the financing transaction, did you have any other involvement with that pending or threatened litigation?

MR. BERGER: Objection to the extent there's documents that may help refresh his recollection. You can answer, sir,

THE WITNESS; I don't recall any other involvement.

BY MR. LUNSETH:

Q. Showing you what's been marked Exhibit 7, do you recognize that as the summons and complaint in this matter?

A. Yes,

Q. And were you the individual who was served with the summons and complaint on August 21, 2001?

A. I believe I was.

Q. And were you served at the offices of the company?

A. Yes.

Q. What did you do with it, with the complaint, summons and complaint?

A. I faxed a copy to counsel and provided Mr. Cohen with a copy, I believe.

Q. And when you say faxed counsel, who was that?

A. Our corporate - I believe it was our corporate matters attorney, Stefen Clulow.

Q. Was anything done to make a disclosure of the fact that the summons and complaint had been served to the investors?

A. Could you clarify the question?

Q. Well, the dating may give us the answer to this question.

The transaction was closed on August 14, 2001, was it not, sir?

A. That's correct.

Q. I guess what I'm really asking is whether, to your knowledge, there were any ongoing disclosures in connection with that transaction after the closing.

A. I don't recall any.

Q. Did anyone send the summons and complaint, to your knowledge, to any of the investors who had invested in the private placement financing?

A. Not to my knowledge.

Q. Apparently you had a copy of the complaint as of June, 2001 or approximately that point in time, correct, from the Law firm in Minneapolis?

A. Whenever I received that, that is the date I would have had that copy.

Q. Just so we're clear on what the questions are.

JA 814.

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JA 1098. Mr. Scibora responded that same day stating that Mr. Cohen should "[g]o ahead and have your secretary call my office to arrange a meeting with me upon your return," however, "we are going forward with this lawsuit." JAI 100.

On August 21, 2001, Advanced served the Complaint on Premier.

C. Premier's Intent to Defend the Litigation

At the time Premier was served with Advanced's Complaint, Premier had just completed a significant private placement transaction. On August 14, 2001, in connection with the financing closing, JA992, Premier disclosed the Advanced suit to potential. investors, and stated its intent to defend the suit:

> [Premier] is a defendant in Advanced Communication, Design, Inc. v. Premier Retail Networks, Inc., a lawsuit claiming that PRNI's multistation video/audio distribution apparatus infringe the plaintiffs patent. PRNI disputes these allegations and intends to defend the suit.

JA850; JA852. At that time, however, the complaint had still not been served.

Art Songey, Chief Financial Officer, received service of process for Premier on August 21, 2001. JA416. He faxed the papers to Premier's "corporate matters" attorney, Stefan Clulow, and gave a copy to Mr. Cohen. JA812; JA814.

At that time, Mr. Cohen had just resigned his position as Premier's CEO in connection with the private placement. Under the terms of his resignation, he would continue in his position as Chairman with relatively few changes in his duties. JA992.

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UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MINNESOTA

ADVANCED COMMUNICATION DESIGN, Inc.,	) COURT FILE NO.: 01-983 DSD/JMM
Plaintiffs and Counterdefendant,	) AFFIDAVIT OF PAUL DAVIS IN SUPPORT OF PREMIER RETAIL NETWORKS, INC.'S:
v.	
PREMIER RETAIL NETWORKS, Inc.	) (1) OPPOSITION TO MOTION FOR DEFAULT JUDGMENT ON LIABILITY;
Defendant and Counterclaimant.	) (2) MOTION FOR RELIEF FROM ENTRY OF DEFAULT; AND
	) (3) MOTION FOR LEAVE TO FILE ANSWER AND COUNTERCLAIMS

1. I, Paul Davis, depose and state as follows: I am a partner with the firm of Wilson Sonsini Goodrich & Rosati in the firm's patent department. I make this Affidavit in support of Premier Retail Networks, Inc.'s ("PRN") above-captioned motion. I have personal knowledge of the facts set forth herein which are true and correct, and if called to testify,

I could and would testify competently thereto. I am over the age of 21 and am fully competent to make this affidavit.

2. In March 2001, I became aware that Advanced Communication Design, Inc. ("Advanced") had contacted PRN-regarding its concern about a potential conflict between PRN's products and one of its patents. In April 2001, I participated in a conference call with Marco Scibora of Advanced and Advanced's patent counsel. During this call, PRN provided Advanced with details concerning its technology in an effort to allay Advanced's concerns regarding the infringement of its patent. I understood that after this call, the principals of Advanced and PRN were negotiating a business solution to the dispute and that PRN was waiting to receive Advanced's business proposal to resolve all outstanding issues between the companies.

3. I received certain written correspondence in May and June from Advanced's patent counsel concerning their continued belief that PRN's products infringed upon Advanced's U.S. Patent No. 6,133,908 (the `908 Patent). Upon receiving this correspondence, I was told by PRN that the matter was being handled "CEO to CEO" and that Jeffrey Cohen, the Chief Executive Officer of PRN, had reached a handshake deal with Mr. Scibora that Advanced would not proceed with litigation against PRN. It was my understanding that the parties were continuing to negotiate a business solution to resolve the dispute. Thus, I did not believe a response to Advanced's patent counsels' letters was required.

4. Sometime in August I became aware that Advanced had filed a complaint against PRN but that the complaint had not been served. I understood that the companies were still negotiating and that the complaint was filed essentially to put pressure on PRN in the business negotiations.

5. I never understood that the complaint was served or that a formal response was required from PRN until I received a call from Michael Lafeber, Advanced's patent counsel, on September 25, 2001. Mr. Lafeber informed me that the complaint against PRN had been served and that PRN had failed to file a timely answer. I told Mr. Lafeber that I understood that matter was being resolved on a business level and that I did not know the status of the lawsuit, of PRN's answer, or whether Wilson Sonsini Goodrich & Rosati was representing PRN with respect to the lawsuit. My statements to Mr. Lafeber were simply an honest account of the situation as I understood it and not meant to convey that PRN did not intend to file a response to Advanced's lawsuit. Mr. Lafeber never informed me during this call that Advanced would be seeking a default against PRN, despite the fact that I now understand that he obtained a default against PRN the very next day.

6. After my telephone call with Mr. Lafeber, I informed PRN that Advanced claimed that it had served a complaint to PRN and that PRN's answer was overdue. I understand that after this conversation the complaint was turned over to Wilson Sonsini's litigation department.

I declare under penalty of perjury that the foregoing is true and correct. Executed at Palo Alto, California on November 15, 2001.

s/Paul Davis

STATE OF CALIFORNIA §
§
COUNTY OF SANTA CLARA §

SUBSCRIBED AND SWORN TO before me on this 15th day of November, 2001, to certify which witness my hand and seal of office.

s/Notary Public in and for the State of California

UNITED STATES DISTRICT COURT
DISTRICT OF MINNESOTA

Advanced Communication Design, Inc.	Court File No. 01-983 DSD/JMM
Plaintiff,	
vs.	AFFIDAVIT OF MICHAEL M. LAFEBER
Premier Retail Networks, Inc.,	
Defendant.	

STATE OF MINNESOTA)
) ss
COUNTY OF HENNEPIN)

Michael M. Lafeber, being first duly sworn upon oath, deposes and states as follows:

1. I am an attorney with the law firm of Rider, Bennett, Egan & Arundel, LLP which represents Plaintiff Advanced Communications Design, Inc. ("Advanced") in this litigation against Premier Retail Networks, Inc. ("Premier").

2. On June l, 2001, our office filed a Complaint with the United States District Court for the District of Minnesota alleging that Premier infringed the `908 Patent. A true and correct copy of the `908 Patent is attached hereto as Exhibit A. A true and correct copy of the Complaint is attached hereto as Exhibit B.

3. On June 21, 2001, I sent a follow-up letter to Mr. Paul Davis, Premier's attorney, requesting that he respond to the letter of Gerald E. Helget, Esq., dated May 3, 2001.

(See Exhibit B attached to Helget Aff. submitted simultaneously herewith). A true and correct copy of my letter dated June 21, 2001, is attached hereto as Exhibit F. I never received any response to my letter dated June 21, 2001.

4. Premier was personally served with the Summons and Complaint in this action on August 21, 2001. A true and correct copy of the proof of service is attached hereto as Exhibit C.

5. Premier has failed to submit an Answer or otherwise, defend or appear in this action by the time required under the Federal Rules of Civil Procedure.

6. On or about September 25, 2001, I contacted Attorney Paul Davis, the attorney who had represented Premier in the prior discussions between the parties. The purpose of my call was to advise him that his Answer was overdue and to inquire about the status of Premier's Answer. Mr. Davis admitted that he knew of the Complaint and that it had been served on Premier. Mr. Davis was unwilling or unable to inform me whether his law firm was representing Premier in the present litigation or whether Premier would be responding to the Complaint.

7. I subsequently applied for an entry of default against Premier, and on September 26, 2001, default was entered against Premier by the Clerk of Court. Attached hereto as Exhibit D is a true and correct copy of my Affidavit which I submitted in support of the application for entry of default. Attached hereto as Exhibit E is a true and correct copy of Clerk's Entry of Default dated September 26, 2001.

8. I had not received any further communication from Premier or its counsel until October 15, 2001, when I received a telephone call from Attorney Tracy Tosh-Lane of

the same law firm as Mr. Davis. Ms. Tosh-Lane was not able to explain why an Answer has not been submitted. As of the date hereof, Premier has failed to plead or otherwise, respond to the Complaint in this action. I did, however, deliver to Ms. Tosh-Lane's attention a copy of my Affidavit in support of the entry of default (Exhibit D) and a copy of Clerk's Entry of Default (Exhibit E) on October 15, 2001.

9. Upon information and belief, Defendant Premier Retail Networks, Inc. is not in the military service of the United States of America.

FURTHER AFFIANT SAYETH NOT.

s/Michael M. Lafeber

Subscribed and sworn to before me
this 17th day of October, 2001.

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MINNESOTA

ADVANCED COMMUNICATION DESIGN, Inc.,	) COURT FILE NO.: 01-983 DSD/JMM
Plaintiffs and Counterdefendant,	) AFFIDAVIT OF MARK SEAN MORAN IN SUPPORT OF
PREMIER v. RETAIL NETWORKS, Inc.'s	) NETWORKS, INC.'S: PREMIER RETAIL
Defendant and Counterclaimant.	) (1) OPPOSITION TO MOTION FOR DEFAULT JUDGMENT ON LIABILITY;) (2) MOTION FOR RELIEF FROM ENTRY OF DEFAULT; AND) (3) MOTION FOR LEAVE TO FILE ANSWER AND COUNTERCLAIMS

1. I, Mark Sean Moran, depose and state as follows: I am the Chief Strategy Officer of Premier Retail Networks, Inc. ("PRN" or the "Company") and have held this

title throughout the period described below. I make this Affidavit in support of PRN's above-captioned motion. I have personal knowledge of the facts set forth herein which are true and correct, and if called to testify, I could and would testify competently thereto. I am over the age of 21 and am fully competent to make this affidavit.

2. In March 2001, I became aware that Advanced Communication Design, Inc. ("Advanced") had notified PRN that it believed there may be a conflict between PRN's products and its U.S. Patent No. 6,133,908 (the "'908 Patent"). Upon receiving this information, I began working with Jeffrey Cohen, PRN's Chief Executive Officer ("CEO"), to investigate Advanced's claims and to resolve the situation. Mr. Cohen indicated early on that he would assume primary responsibility for resolving the potential dispute with Advanced. Meanwhile, I took responsibility for exploring the similarities and differences between PRN's technology and the subject matter described in the '908 Patent. I worked on this issue With PRN's outside patent counsel. Paul Davis of Wilson Sonsini Goodrich and Rosati ("WSGR").

3. In March 2001, I had several communications with Advanced's President and CEO, Marco Scibora, where we discussed the possibility of our respective companies exchanging technical information in an effort to eliminate Advanced's infringement concerns and to explore a possible business relationship between the companies. In that vein, on April 4, 2001, PRN and Advanced executed a Reciprocal Confidentiality Agreement to protect the exchange of confidential information in the parties' negotiations. Attached as exhibit A is a true and correct copy of the Reciprocal Confidentiality Agreement executed by Advanced and PRN on April 4, 2001.

4. After signing the Reciprocal Confidentiality Agreement, I participated in at least two conference calls with Mr. Scibora, Advanced's patent counsel, and with Paul Davis, PRN's patent counsel. During these calls, PRN described its technology to Advanced in detail to convince Advanced that there was no infringement of its patent by PRN products. After these calls I continued to work with Paul Davis to analyze PRN's technology with respect to the 908 Patent.

5. On April 12, 2001, Mr. Cohen held a face-to-face meeting at PRN with Advanced's Mr. Scibora, which I attended. The meeting was not scheduled in order to discuss the dispute underlying Advanced's lawsuit against PRN, but rather was intended as a forum to discuss a potential business alliance between Advanced and PRN, wherein Advanced would supply its product for an in-store network project which PRN currently continues to implement.

6. At the meeting, Mr. Cohen told Mr. Scibora that before discussing the current project, or any other potential business opportunities involving PRN and Advanced, Mr. Scibora would have to assure PRN that Advanced was not going to pursue claims against PRN relating to the '908 patent. Mr. Scibora and Mr. Cohen deliberated about this issue at some length, and Mr. Scibora called back to his office more than once to consult with his people before he finally agreed not to formally assert the '908 Patent against PRN. I watched as Mr. Scibora shook hands with Mr. Cohen on that promise. Alter agreeing not to sue PRN, Mr. Scibora met with members of the PRN project team. On April 13, 1 sent a follow-up e-mail to Mr. Scibora Which confirmed the handshake agreement on the patents and recapped our meeting Attached as Exhibit B hereto is a true and correct copy of an e-mail which 1 sent to Mr. Scibora on April 13, titled "results of our meeting."

7. During this time, I understood that Mr. Cohen and Mr. Scibora were continuing to negotiate a business deal and that PRN was waiting to receive Advanced's business proposal to resolve all outstanding issues between the companies. Indeed, Mr. Scibora had specifically contacted me in mid-April promising to send a business proposal to PRN concerning a business arrangement between the companies. Attached as Exhibit C hereto is a true and correct copy of an e-mail dated April 14 to me from Marco Scibora titled "Developing a solid business relationship."

8. In June 2000, Mr. Cohen informed me that Advanced had filed a complaint alleging patent infringement against PRN, but that the complaint had not been served and therefore, was not "operative" against PRN. Mr. Cohen further told me that he was still negotiating a business arrangement with Advanced that would resolve any alleged infringement issues, and that he would exclusively be handling the negotiation of a business resolution with Mr. Scibora.

9. On August 22, Mr. Cohen was terminated by PRN's Board of Directors and he departed the Company with little notice which was very disruptive to PRN. There was not a smooth or organized transition where all of Mr. Cohen's duties were assigned to other PRN executives. At the time Mr. Cohen left PRN, I believed that PRN and Advanced were still negotiating a business arrangement.

10. I did not become aware that Advanced's complaint had been served upon PRN until I met with PRN's Chief Financial Officer, Art Songey, and PRN's outside patent counsel, Paul Davis of WSGR, on October 8, 2001. When I realized that the complaint had been served, PRN requested its counsel to ensure that all necessary responses to the Advanced complaint be immediately addressed.

11. I believe the fact that Mr. Cohen personally attended to negotiating the relationship/dispute with Advanced, combined with Advanced's service of the complaint to Mr. Songey and Mr. Cohen's abrupt departure, caused substantial confusion at PRN concerning its responsibility to respond to the complaint. I believe tire status of the complaint was further confused as a result of the handshake agreement (which was confirmed by me in writing) between Mr. Cohen and Mr. Scibora, which PRN believed had resolved Advanced's patent issues. Absent the transition of CEOs at PRN, I believe that both myself and Mr. Songey would have been aware of the necessity of formally responding to the complaint. PRN's failure to respond to the complaint in a timely fashion should in no way be construed as indicating that PRN does not take the allegations in the complaint seriously or that it will not be respectful in the future of Court rules and deadlines. After determining that PRN indeed had not filed a timely response to Advanced's complaint, PRN instructed its attorneys to file the appropriate response immediately.

I declare under penalty of perjury that the foregoing is true and correct. Executed at San Francisco, California on November 14, 2001.

s/ Mark Sean Moran

STATE OF CALIFORNIA §
COUNTY OF SANTA CLARA §

SUBSCRIBED AND SWORN TO before me on this 14th day of November, 2001, to certify which witness my hand and seal of office.

s/RACHEL K. UNITED STATES

UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF MINNESOTA

ADVANCED COMMUNICATION DESIGN, Inc.,	) COURT FILE NO.:) 01-983 DSD\JMM
Plaintiffs and Counterdefendant,	) AFFIDAVIT OF) ARTHUR J.) SONGEY IN) SUPPORT OF) PREMIER RETAIL
v.	) NETWORKS, INC.'S:
PREMIER RETAIL NETWORKS, Inc.	
Defendant and Counterclaimant.	) (1) OPPOSITION TO) MOTION FOR) DEFAULT) JUDGMENT ON) LIABILITY;) (2) MOTION FOR) RELIEF FROM) ENTRY OF) DEFAULT; AND) (3) MOTION FOR) LEAVE TO FILE) ANSWER AND) COUNTERCLAIMS

1. I, Arthur J. Songey, depose and state as follows: I am the Chief Financial Officer of Premier Retail Networks, Inc. ("PRN" or the "Company") and have held this

title throughout the period described below. I make this Affidavit in support of PRN's above-captioned motion. I have personal knowledge of the facts set forth herein which are true and correct, and if called to testify, I could and would testify competently thereto. I am over the age of 21 and am fully competent to make this affidavit.

2. At some point prior to August 21, 2001, Jeffrey Cohen, PRN's Chief Executive Officer ("CEO") informed me that a potential dispute existed between PRN and Advanced Communication Design, Inc. ("Advanced") concerning U.S. Patent No. 6,133,908. Mr. Cohen told me not to concern myself with this potential dispute because he was handing the matter personally and directly with Advanced's CEO. Mr. Cohen told me that a business resolution was pending which would resolve the dispute between the companies.

3. I recall being served with Advanced's complaint on August 21st, 2001. At that time, I was informed by Mr. Cohen that he was handling the matter and that he was continuing to seek a business resolution with Advanced. Mr. Cohen further informed me that I should not focus my attention on the Advanced matter, but should concentrate on numerous other matters concerning the Company.

4. Mr. Cohen was notified of the termination of his CEO position on August 22, 2001, and at no point before his departure did he ever communicate to me that the Advanced matter was not resolved or that it required my attention. It was not until October 8, 2001, during a meeting with Sean Moran and PRN's patent counsel that I realized that the Company had not appropriately responded to the Advanced complaint.

I declare under penalty of perjury that the foregoing is true and correct. Executed at

I declare under penalty of perjury that the forgoing is true and correct. Executed at San Francisco California on November 14 , 2001.

s/Arthur J. Songey

STATE OF CALIFORNIA §
COUNTY OF SANTA CLARA §

SUBSCRIBED AND SWORN TO before me on this day of November, 2001, to certify which witness my hand and seal of office.

s/Notary Public in and for the State of California

(Cite as: 65 F.3d 178,1995 WL 523646 (10th Cir.(Kan.)))
H
NOTICE: THIS IS AN UNPUBLISHED OPINION.

(The Court's decision is referenced in a "Table of Decisions Without Reported Opinions" appearing in the Federal Reporter. Use FI CTA10 Rule 36.3 for rules regarding the citation of unpublished opinions.)

United States Court of Appeals, Tenth Circuit.

Steven HUNT, Plaintiff Appellant,
v.
FORD MOTOR COMPANY, a Delaware corporation and Kling Motor Company, Inc., Defendants,
v.
UNIVERSAL UNDERWRITERS INSURANCE COMPANY, Garnishee-Appellee.

No. 94-3054.

Aug. 29, 1995

D. Kansas, D.C. No. 92-2060-EEO.

D.Kan., 811 F.Supp.1098.

AFFIRMED.

Before TACHA, Circuit Judge, McWILLIAMS, Senior Circuit Judge, and BURRAGE [FN**], District Judge.

ORDER AND JUDGMENT [FN]**

BURRAGE, District Judge, Sitting by Designation.

**1 This is an appeal filed by Plaintiff, Steven Hunt ("Plaintiff'), of the district court's order denying his motion for summary judgment and granting the cross-motion for summary judgment of Garnishee, Universal Underwriters Insurance

Company ("Garnishee"). Plaintiff also appeals the district court's order denying his motion to alter or amend the judgment. We exercise jurisdiction pursuant to 28 U.S.C. § 1291 and affirm.

The essential facts are uncontroverted. On February 10, 1992, Plaintiff filed a complaint against Defendants, Kling Motor Company, Inc. and Ford Motor Company, alleging claims of breach of express warranty, breach of implied warranties, deceptive merchandising practices, fraud and misrepresentation. (Aplt.App. at 1, 742). Summons was issued for Defendant, Kling Motor Company, Inc. ("Defendant"), on May 26, 1992. (Aplt.App. at 9, 742). Defendant was served with the summons and the complaint on May 29, 1992. (Aplt.App. at 742). Defendant did not answer or otherwise respond to Plaintiffs complaint. On July 15, 1992, the district court entered an order sustaining Plaintiffs motion for default judgment against Defendant and scheduling a hearing for September 4, 1992 for a determination of the amount of damages. (Aplt.App. at 15). On August 14, 1992, Plaintiffs counsel mailed a letter to Garnishee, Defendant's liability insurance carrier, advising that Defendant had been named as a defendant in the lawsuit, that the district court had entered an interlocutory default judgment against Defendant and that Plaintiff would be looking to Garnishee to satisfy any monetary judgment

entered against Defendant. The letter further advised that a hearing was scheduled for September 4, 1992 to determine the amount of damages to be awarded Plaintiff against Defendant. (Aplt.App. at 16, 742).

Garnishee had no knowledge of the lawsuit or the entry of default until receipt of the August 14, 1992 letter. (Aplt.App. at 743).

The insurance policy Plaintiff claimed afforded coverage to Defendant provided:

INSURED'S DUTIES AFTER INJURY, OCCURRENCE, CLAIM OR SUIT--if there is an OCCURRENCE, the INSURED is sued, or a claim is made against INSURED:

1. Report this to US as soon as possible. Give US all details YOU can, including where and how it happened, the names and addresses of persons involved, injured, and any witnesses.

2. Promptly send US all documents if any INSURED is sued or a claim is made against them.

3. Cooperate and assist US in the investigation, settlement, defense, enforcement of contribution or indemnification. The INSURED may not, except at their own expense, make any offer or payment, assume any obligation or incur any expense unless otherwise permitted in this Coverage Part.

"YOU" is defined in the policy as "the insured." (Aplt.App. at 743-744).

On September 4, 1992, the district court held a hearing and awarded damages to Plaintiff against Defendant in the amount

of $1,052,290.70. At the hearing, no one appeared on behalf of Defendant. (Aplt.App. at 18, 743).

**2 On October 28, 1992, Plaintiff served Garnishee with an order of garnishment. On November 4, 1992, Garnishee timely answered the garnishment order, denying that it owed anything to Defendant. Plaintiff replied to Garnishee's answer asserting Garnishee wrongfully denied coverage to Defendant and requesting recovery against Garnishee. (Aplt.App. at 20-28, 743).

Thereafter, Plaintiff filed his motion for summary judgment contending that Garnishee's insurance policy provided coverage to Defendant for the allegations in Plaintiffs complaint. Garnishee filed a cross-motion for summary judgment contending that (1) its policy provided no coverage for the type of claims Plaintiff asserted in the complaint; (2) even if there were coverage for the types of claims Plaintiff asserted, Garnishee's coverage was not in force at the time because it was a "claims made" policy and not an "occurrence based" policy, and no claim was made within the policy period; and (3) no coverage existed because Garnishee had been substantially prejudiced by Defendant's breach of the insurance policy's provisions requiring the insured to give timely notice to the insurer of any claim, lawsuit, or occurrence. (Aplt.App. 60-82, 595-615, 744). On December 17, 1993, the district court denied Plaintiffs motion for summary judgment and granted Garnishee's cross-motion for summary judgment based upon Garnishee's third argument. (Aplt.App. 740- 775). The district court did not reach Garnishee's other arguments on the basis the third argument was dispositive. [FN 1]

Subsequently, Plaintiff filed a motion to alter or amend the judgment. (Aplt.App. 756). In his motion, Plaintiff argued that the district court failed to recognize the distinction

between overturning the entry of default and an actual default judgment and that such distinction was very important in negating the claim that Garnishee was prejudiced by lack of notice. Plaintiff specifically argued that a simple motion pursuant to Rule 55(c), Fed.R.Civ.P., would have allowed Garnishee to file an answer and defend the lawsuit; thus negating any prejudice to Garnishee. In denying the motion, the district court found Plaintiffs assertion that the district court would have automatically set aside the entry of default if Garnishee had filed a Rule 55(c) motion was presumptuous. The district court concluded "[t]here are no facts before us that would even remotely suggest good cause exists to set aside our entry of default." (Aplt.App. 782).

On appeal, Plaintiff argues the district court erred in finding Garnishee was substantially prejudiced by Defendant, Kling Motor Company's failure to give timely notice of the lawsuit as required by the insurance policy. Plaintiff contends Garnishee was not prejudiced by a lack of notice from Defendant. Plaintiff asserts Garnishee was notified by Plaintiffs counsel more than two weeks prior to the September 4, 1992 damages hearing that a default had been entered against Defendant. According to Plaintiff, Garnishee could have easily had the entry of default set aside by filing a motion under Rule 55(c). Once the default had been set aside, Garnishee could have answered the complaint and have asserted its meritorious defenses. However, Plaintiff argues Garnishee chose not to file any Rule 55(c) motion. Instead, it sat idle and allowed default judgment to be entered by the district court. Plaintiff contends Garnishee made such decision because it had determined, after an investigation of Plaintiffs claim, that no indemnity coverage existed under the insurance policy. Consequently, Plaintiff contends the prejudice, if any, suffered by Garnishee was not the result of Defendant's failure to give timely notice of the lawsuit, but

rather, the result of Garnishee declining to avail itself of the procedures under Rule 55(c).

**3 In addition, Plaintiff contends the district court erred in finding good cause did not exist to justify setting aside the entry of default under Rule 55(c). Plaintiff asserts there was ample evidence in the record to support a finding of good cause. Plaintiff specifically points to the undisputed evidence that Garnishee was unaware of the default until notified by Plaintiffs counsel. This lack of notice, Plaintiff argues, would have weighed heavily in favor of setting aside the default. Plaintiff additionally emphasizes that the lawsuit against Defendant was in its early stages, the damages sought against Defendant were substantial, Defendant had meritorious defenses against Plaintiffs action and Plaintiff would have suffered no prejudice. According to Plaintiff, these circumstances would clearly have warranted the setting aside of the entry of default, particularly when case law favors disposition of litigation on the merits.

Upon review of the record, we find the district court correctly determined Garnishee was substantially prejudiced by Defendant's breach of the insurance policy provisions requiring Defendant to provide Garnishee timely notice of Plaintiffs lawsuit. Although Defendant argues the district court would have set aside the entry of default had Garnishee filed a motion under Rule 55(c), it is clear from the district court's order denying Plaintiffs motion to alter or amend the judgment, no such relief would have been granted. Moreover, we conclude such decision would neither have been an abuse of discretion nor clearly wrong. Gomes v. Williams, 420 F.2d 1364, 1367 (10th Cir.1970) (disposition of motions under Rules 55(c) and 60(b) are largely within the discretion of the trial court and review is limited to determining whether the trial court was clearly wrong in denying the motions).

Under Rule 55(c), good cause is required to be shown for the court to set aside an entry of default. Fed.R.Civ.P. 55(c). The principal factors in determining whether a defendant has met the good cause standard are (1) whether the default was the result of culpable conduct of the defendant, (2) whether the plaintiff would be prejudiced if the default should be set aside, and (3) whether the defendant presented a meritorious defense. In re Dierschke, 975 F.2d 181, 183 (5th Cir.1992).

These factors are not "talismanic" and the court may consider other factors. Id. at 184. However, the court need not consider all the factors. If the default was the result of the defendant's culpable conduct, the district court may refuse to set aside the default on that basis alone. Id. at 184; Alan Neuman Productions, Inc. v. Albright, 862 F.2d 1388 (9th Cir.1988), cert. denied, 493 U.S. 858, 110 S.Ct. 168, 107 L.Ed.2d 124 (1989). But cf. Berthelsen v. Kane, 907 F.2d 617 (6th Cir.1990); Federal Deposit Ins. Corp. v. Franscisco Inv. Corp., 873 F.2d 474 (1st Cir.1989). Generally, a defendant's conduct is considered culpable if he has defaulted willfully or has no excuse for the default. United States v. Timbers Preserve, Routt County, Colo., 999 F.2d 452, 454 (10th Cir.1993); 6 James W. Moore, et al., Moore's Federal Practice, § 55.10 [1] at p. 55-74, n. 24 (2d ed. 1994); see also, Meadows v. Dominican Republic, 817 F.2d 517, 521 (9th Cir.), cent. denied, 484 U.S. 976, 108 S.Ct. 486, 487, 98 L.Ed.2d 485 (1987) (receiving actual notice of complaint and failing to respond is culpable conduct).

**4 In the instant case, the district court found Defendant's failure to answer or otherwise respond to the complaint constituted culpable conduct. The district court specifically stated "[Defendant's] failure to answer was willful and demonstrated a flagrant disregard for the authority of the court." (Aplt.App. 782). Because Defendant's culpable conduct caused the default and there were no facts to suggest

good cause existed, the district court indicated that it would not set aside the entry of default.

We agree with the district court that Defendant's failure to answer or otherwise respond to the complaint after receiving actual notice of the complaint demonstrated a willful disregard for the court. We also agree there was no evidence of good cause to set aside the entry of default. Consequently, we find Garnishee, standing in the shoes of Defendant, [FN2] would not have been entitled to set aside the entry of default.

As the entry of default would not have been set aside, the Court finds the district court properly concluded Garnishee was substantially prejudiced by Defendant's failure to give timely notice. [FN3] Defendant's liability to Plaintiff was imposed with the entry of default. As a result, Garnishee was precluded from asserting any meritorious defenses to Plaintiffs claims. Garnishee was additionally precluded from conducting investigations into the merits of Plaintiffs claims, from conducting arm-length negotiations or settlement with Plaintiff and from preserving, developing or preparing evidence. Since Garnishee's ability to defend and control the litigation was eliminated by the entry of default, the Court finds Defendant's failure to comply with the notice requirements of the insurance contract substantially prejudiced Garnishee. *Home Life Insurance Co. v. Clay*, 719 P.2d 756, 762- 63, rev. denied, 239 Kan. 693 (1986) (when loss results from liability owed a third party, insurer is prejudiced only if its ability to defend against the imposition of liability is diminished by delay). [FN4]

Relying upon *Phico Ins. Co. v. Providers Ins. Co.*, 888 F.2d 663, 668 (10th Cir.1988), Plaintiff argues Garnishee cannot show substantial prejudice because it investigated the claim and denied coverage without informing Defendant written notice was required. We disagree. In Phico Ins. Co., we held,

applying Kansas law, that an insurance company could waive its right under an insurance contract to receive written notice of a claim when the insured provided timely and adequate oral notice to the insurance company and the insurance company undertook an adequate investigation to determine its rights and liabilities. Here, Garnishee did not receive timely and adequate notice from Defendant or Plaintiff. At the time Garnishee received written notice from Plaintiff, default was already entered. Garnishee had nothing to defend at that point. Clearly, Garnishee did not waive its requirement of written notice of a claim, occurrence or suit by investigating the claim and denying coverage after the entry of default had already been entered. [FN5]

**5 Accordingly, because we conclude the district court correctly determined Garnishee was substantially prejudiced by Defendant's failure to give timely notice, the judgment of the district court is AFFIRMED.

FN* The Honorable Michael Burrage, District Judge, United States District Court for the Northern, Eastern and Western Districts of Oklahoma, sitting by designation.

FN** This order and judgment is not binding precedent, except under the doctrines of law of the case, res judicata, and collateral estoppel. The court generally disfavors the citation of orders and judgments; nevertheless, an order and judgment may be cited under the terms and conditions of the court's General Order filed November 29, F.R.D. 470.

FN 1. As discussed *infra.*, the Court likewise finds the substantial prejudice argument dispositive. Therefore, we need not discuss the additional issues of coverage addressed by the parties.

FN2. In garnishment proceedings, the judgment creditor takes the place and stands in the shoes of the judgment debtor. *Williams v. Community Drive-In Theater*, 3 Kan.App. 352, 353, 595 P.2d 724, 725 (1979).

FN3. Whether an insurer is substantially prejudiced by an insured's failure to give timely notice may be determined by the court as a matter of law. *Montgomery v. Professional Mut. Ins. Co.*, 611 F.2d 818, 820 (10th Cir.1980); *Security Nat. Bank of Kansas City, Kan. v. Continental Ins. Co.*, 586 F.Supp. 139, 150 (D.Kan.1982). In the instant case, there are no unresolved facts relating to Defendant's failure to give timely notice or the consequences of that failure and thus, the issue of whether Garnishee was substantially prejudiced was properly determined on summary judgment.

FN4. Plaintiff, citing to *Upjohn Co. v. Aetna Cas. and Sur. Co.*, 768 F.Supp. 1186 (W.D.Mich.1991), and Henry v. Johnson, 191 Kan. 369, 381 P.2d 538, 544 (1963), contends Garnishee cannot demonstrate substantial prejudice since it failed to avail itself of the procedures of Rule 55(c) and permitted default judgment to be entered against Defendant. However, as previously found, no relief would have been granted had a motion under Rule 55(c) been filed by Garnishee. Thus, contrary to Plaintiff s contention, Garnishee's prejudice was not caused by its failure to seek relief from the entry of default under Rule 55(c), but rather, from the entry of default prior to its receipt of notice.

FN5. Plaintiff has cited *Jameson v. Farmers Mutual Automobile Insurance Co.*, 181 Kan. 120, 309 P.2d 394 (1957), to support his argument that the notice received by Garnishee was sufficient. The Court, however, finds the case distinguishable. In *Jameson*, the notice given to the insurance company by the third party was timely and the insurance company was given an opportunity to investigate and defend

the lawsuit. Here, the notice was untimely and Garnishee's opportunity to adequately investigate and defend Plaintiffs lawsuit was denied.

65 F.3d 178 (Table), 1995 WL 523646 (10th Cir.(Kan.)), Unpublished Disposition

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